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**UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA  
SAN FRANCISCO DIVISION**

CHRISTOPHER L. SAYCE, Individually and on )  
Behalf of All Others Similarly Situated, )

Plaintiff, )

v. )

FORESCOUT TECHNOLOGIES, INC., *et. al.* )

Defendants. )

CASE NO.: 20-CV-00076-SI

**CLASS ACTION**

Hon. SUSAN ILLSTON

**SECOND CONSOLIDATED  
AMENDED COMPLAINT FOR  
VIOLATIONS OF THE  
SECURITIES LAWS**

**JURY TRIAL DEMANDED**

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1           3.       This was the first public guidance issued by Forescout since its IPO but was  
2       untethered to the Company's prospects as demonstrated by input received in 2018 from Force  
3       Management LLC ("Force Management"), a consulting firm Forescout retained to add structure and  
4       discipline to Forescout's sales process. The related analysis of that information in early 2019 by a  
5       highly placed employee at Forescout who is serving as a confidential witness ("CW"),<sup>1</sup> states that a  
6       majority of Forescout's deals in the sales pipeline had only a 50% chance of closing yet Forescout  
7       identified the deals as "committed" in its sales pipeline. Forescout considered implementing the  
8       model proposed by Force Management in early 2019, but quickly abandoned that model before  
9       revenue guidance for FY 2019 was given.

10          4.       On May 9, 2019, Defendants then preannounced a lowered guidance range for the  
11       second quarter ("Q2") of FY 2019 with revenues of \$75.3 million and \$78.3 million, representing  
12       year-over-year growth of 14% at the midpoint, but conditioned investors for a soft landing about the  
13       impending deterioration in Forescout's business. Defendants claimed that the Company would still  
14       meet its revenue guidance for FY 2019 because the Company had already been awarded business  
15       despite some deals simply having "slipped" to close later in the year. Analysts, as surrogates for  
16       the market, repeatedly questioned Defendants about the basis for increasing the guidance despite  
17       the "slipped" deals, and Defendants repeatedly made concrete and material misrepresentations in  
18       response to analysts' inquiries by stating that Forescout had "tech wins" with firm commitments  
19       from customers and a "ramped up" sales force with two or more years of experience that generated  
20       far more deals and revenue than inexperienced employees, both of which provided early "visibility"  
21       into the sales pipeline for the rest of the year.

22          5.       The reality was far grimmer as, in truth and in fact, the Company did *not* have "tech  
23       wins," something which was recognized internally by Forescout soon after beginning the first in a  
24       series of exoduses and layoffs of sales representatives in the beginning of 2019, who were critical  
25       to driving the Company's growth in revenues. Ultimately, the Company admitted in an Annual  
26  
27  
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<sup>1</sup> CWs are identified with unique numbers taking the form "CW#" herein.

1 Report filed on Form 10-K for FY 2019 that sales productivity declined from 50% to 38% in 2019,  
2 wiping out all the gains from 2018.

3 6. In an effort to avoid disclosing these adverse facts, beginning in February 2019,  
4 senior executives, including DeCesare and Forescout Chief Revenue Officer Steve Redman  
5 (“Redman”) pressured sales representative to categorize deals as “committed” even though buyers  
6 had, in fact, not yet made any such commitment to make a purchase. Multiple CWs with personal  
7 knowledge about the deals confirm the existence of this widespread pressure campaign to  
8 miscategorize seven figure deals that even spread to a new company acquired by Forescout formerly  
9 known as SecurityMatters. Towards the end of the Class Period (defined below in ¶158), CW19  
10 states that he heard the Vice President of Americas at Forescout instruct sales representatives to  
11 report deals as “committed” based only on a single, preliminary conversation with a senior executive  
12 of the customer, again showing the pressure campaign was not restricted to immaterial one-offs but  
13 was, in fact, a companywide policy.

14 7. DeCesare, according to CW20, was provided with updates on a granular level about  
15 the status of all deals over \$500,000 on a weekly basis as the quarter progressed, including the status  
16 of negotiations with customers and the remaining steps required to close deals. In addition, multiple  
17 CWs also confirm that DeCesare, Redman and other senior executives used Clari, a software that  
18 provides information about the status of sales representatives, the sales pipeline, and forecasts with  
19 real-time accuracy to monitor deals and sales representatives during the Class Period. CW18 further  
20 confirms that DeCesare himself acted as the chief sales representative for large transactions, and  
21 thus DeCesare knew that Forescout had not been awarded the business for numerous seven figure  
22 deals.

23 8. On October 10, 2019, Forescout yet again announced poor financial results for the  
24 third fiscal quarter (“Q3”) of 2019 that missed even the low end of the revenue guidance by over \$7  
25 million. Still, Defendants again failed to come clean with investors, and falsely claimed that the  
26 sales pipeline “continued to grow,” and deals had merely slipped again because of extended approval  
27 cycles due to poor economic conditions outside the United States. However, in making those  
28 misrepresentations, Defendants again failed to disclose the rapid deterioration in sales productivity

1 at the time caused by terminations and voluntary departures of sales representatives or the failure to  
2 secure “tech wins” given CW18’s statement that one out of every three seven figure deals in  
3 Forescout’s global sales pipeline was illusory.

4 9. In October 2019, the Company decided to put itself up for sale by hiring Morgan  
5 Stanley & Co. LLC (“Morgan Stanley”) to shop it to both strategic and financial purchasers. The  
6 storyline put forward by the Company for deciding to put itself up for sale was that the shift from  
7 the sale of product licenses to subscription-based services was causing some disruption in reported  
8 revenues, making it more suitable for the Company to be privately held as it had been for more than  
9 15 years prior to the IPO.

10 10. However, there were certain revenue goals the Company needed to meet to make it  
11 an attractive acquisition candidate including a relatively soft landing in terms of revenue growth  
12 before Forescout’s new subscription-based revenue model started generating a new period of steady  
13 growth. The Company produced these by showing moderately lower growth in revenue from prior  
14 year results for the fourth fiscal quarter (“Q4”) of FY 2019 and providing projections to potential  
15 acquirers reflecting 14% growth in revenue for FY 2020 with steady annual revenue growth of  
16 approximately 15% after that time.

17 11. Once again, the reality was far worse as Forescout had, in fact, front-loaded millions  
18 of dollars of sales into Q4 2019 results through millions of dollars of sales to Merlin International,  
19 Inc. (“Merlin”), one of its key third-party partners, to cover up even worse results. In addition, the  
20 FY 2020 revenue projections Forescout provided to potential acquirers lacked any reasonable basis  
21 and were materially higher than internal guidance prepared as part of illustrative guidance (the  
22 “Illustrative Guidance”) it was planning to provide to public investors if an acquisition had not  
23 materialized.

24 12. On February 6, 2020, the same day that Forescout released its Q4 2019 results, it also  
25 announced that Advent International, Inc. (“Advent”), a private equity firm, had entered into a  
26 merger agreement (the “Original Merger Agreement”) to acquire Forescout for \$33.00 per share  
27 (the “Planned Acquisition”).  
28

1           13.       However, Advent soon learned through the Company's SEC proxy disclosures that  
2 the FY 2020 revenue projections it had been provided with were inconsistent and materially higher  
3 than the Illustrative Guidance and that the Company had been laying off and otherwise losing  
4 experienced sales representatives necessary to drive Forescout's revenue growth. The Company,  
5 after stonewalling Advent's request for additional information, failed to meet even the lower  
6 revenue projection of \$62 million in revenue for Q1 2020, instead reporting \$57.2 million in revenue  
7 representing a 24% *decline* from Q1 2019 revenue, an amount which it only received through selling  
8 millions of dollars of hardware below cost, *i.e.*, *at a loss*, in a desperate effort to even come close to  
9 the Q1 2020 Illustrative Guidance. Advent then learned from a corporate whistleblower that the  
10 Company had front-loaded millions of dollars of sales in Q4 2019 through Merlin, with the  
11 whistleblower's version of events confirmed by other unusual facts reported by the Company,  
12 including an implosion in Q1 2020 revenue and Forescout's auditor openly questioning the  
13 Company's revenue recognition practices during 2019.

14           14.       Defendants persisted in deceiving Plaintiffs and other investors concerning key facts  
15 relating to the Company's operations and whether Advent would close on the Original Merger  
16 Agreement in May 2020, despite internally acknowledging that Advent would not voluntarily do so  
17 especially after direct communication from Advent both on April 20, 2020 and May 8, 2020  
18 reflecting that it was unlikely that Advent would voluntarily proceed with the Planned Acquisition.  
19 This was part of what Advent characterized as Defendants' litigation strategy to act as if everything  
20 was perfectly normal in order to prevent Advent from being able to back out of the Original Merger  
21 Agreement and to enforce the Original Merger Agreement through litigation. At the very same  
22 time, however, a strategic committee (the "Strategic Committee") of the Company's Board of  
23 Directors (the "Board") met regularly to discuss, among other things, Forescout's options should  
24 Advent not proceed with consummating the Planned Acquisition as correspondence between  
25 Defendants and Advent became increasingly contentious.

26           15.       On May 15, 2020, Advent put Defendants' strategy of forcing through the Original  
27 Merger Agreement to a test when Advent sent a letter (the "Termination Letter") elaborating on and  
28 reiterating a prior oral conversation occurring no later than May 8, 2020 and explaining why it was

1 refusing to proceed with the Planned Acquisition. On Monday, May 18, 2020, Forescout's stock  
 2 price imploded, declining to under \$20.00 per share over the next three trading days, when it was  
 3 forced to disclose these facts.

4 16. Defendants, consistent with their prior strategy, filed a sixty page Verified Complaint  
 5 (the "Delaware Complaint") on May 19, 2020 in the Delaware Court of Chancery seeking, among  
 6 other things, injunctive relief requiring Advent to proceed with the Planned Acquisition. This was  
 7 followed by Advent answering the Delaware Complaint and asserting a counterclaim (the "Answer  
 8 and Counterclaim") which was followed by Forescout answering Advent's counterclaim (the  
 9 "Counterclaim Answer"), and then two months of expedited litigation.

10 17. The Delaware Litigation was ultimately resolved by Forescout and Advent, on July  
 11 15, 2020, entering into an Amended and Restated Agreement and Plan of Merger (the "Amended  
 12 Merger Agreement") providing for Advent saving \$300 million by acquiring Forescout for \$29.00  
 13 per share through a tender offer made on July 20, 2020 on Schedule TO and a concurrent  
 14 Solicitation/Recommendation Statement made on Schedule 14D-9 (the "Tender Offer  
 15 Recommendation").

### 16 **JURISDICTION AND VENUE**

17 18. The claims asserted herein arise under Sections 10(b) and 20(a) of the Exchange Act  
 18 (15 U.S.C. §§ 78j(b) and 78t(a)) and SEC Rule 10b-5 promulgated thereunder (17 C.F.R. § 240.10b-  
 19 5).

20 19. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C.  
 21 §§ 1331 and 1337 and Section 27 of the Exchange Act (15 U.S.C. § 78aa).

22 20. Venue is proper in this District pursuant to Section 27 of the Exchange Act (15  
 23 U.S.C. § 78aa) and 28 U.S.C. § 1391(b) given that a significant portion of the Defendants'  
 24 misconduct took place within this District. Forescout is a corporation with its principal place of  
 25 business in San Jose, California, and the Individual Defendants reside in or around the San Francisco  
 26 Bay Area.

27 21. In connection with the acts, conduct and other wrongs alleged in this Complaint,  
 28 Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce,

1 including but not limited to, the United States mail, interstate telephone communications and the  
2 facilities of a national securities exchange.

3 **PARTIES**

4 22. Lead Plaintiffs purchased Forescout common stock during the Class Period and  
5 suffered damages as a result of the federal securities laws violations alleged herein.

6 23. Defendant Forescout is a Delaware corporation with its principal executive offices  
7 located at 190 West Tasman Drive, San Jose, CA 95134. Forescout's shares traded on the NASDAQ  
8 Global Select Market under the ticker symbol "FSCT" until the Acquisition was completed.

9 24. Defendant Michael DeCesare ("DeCesare") was, at all relevant times, Forescout's  
10 President, CEO and a member of the Company's Board of Directors. In connection with the Planned  
11 Acquisition, DeCesare stood to receive \$33.5 million for restricted stock units ("RSUs") and  
12 performance-based restricted stock units ("PSUs"), and a golden parachute worth \$10.8 million.  
13 The \$44.3 million DeCesare stood to gain from the Planned Acquisition was over six times his 2019  
14 total compensation of \$7,361,857. *See* 2019 Form 10K/A at p. 25. In addition, DeCesare received  
15 over \$8.2 million from selling 228,382 shares of Forescout common stock during the Class Period  
16 compared to only \$1.836 million from 60,621 shares disposed in the fifteen months prior to the  
17 Class Period, excluding shares sold to cover taxes and 200,000 shares sold at \$29.00 in Forescout's  
18 March 2018 secondary public offering (the "SPO").

19 25. Defendant Christopher Harms ("Harms") was, at all relevant times, Forescout's CFO  
20 with responsibilities to lead the Company's finances, administration and supply chain management.  
21 In connection with the Planned Acquisition, Harms stood to receive \$8.95 million for RSUs and  
22 PSUs and a golden parachute worth \$5.185 million. The \$14.135 million Harms stood to gain from  
23 the Planned Acquisition was over four times his 2019 total compensation of \$3,378,044 for 2019.  
24 *See id.* Further, Harms received nearly \$3.8 million from selling 109,865 shares during the Class  
25 Period compared to only \$1.557 million from 64,808 shares disposed in the fifteen months prior to  
26 the Class Period, excluding shares sold to cover taxes and 46,169 shares sold for \$29.00 per share  
27 in the SPO.

26. Defendants DeCesare and Harms are sometimes referred to in this Complaint as the “Individual Defendants” and together with Forescout as “Defendants.”

### **SUBSTANTIVE ALLEGATIONS**

#### **A. The Company and its Product Offerings**

27. Forescout developed proprietary agentless technology that discovers and classifies IP-based devices in real time as they connect to a customer’s physical network and then continuously monitors and assesses the security posture of such IP-based devices. The Company historically generated revenue from sales of its products and associated maintenance and professional services including: ForeScout CounterACT, ForeScout Enterprise Manager, and ForeScout Extended Modules. Forescout’s CounterACT and Enterprise Manager products were generally sold as physical hardware appliances with its software pre-installed.

28. In 2017, the Company also started offering, in limited quantities to a small number of large enterprises, CounterACT and Enterprise Manager together as a software-only license. The Company’s Extended Modules were sold as software add-ons to the CounterACT and Enterprise Manager products. All of Forescout’s products were sold with a perpetual license. End-customers typically purchased maintenance and professional services contracts with a one-year or three-year term when they purchased Forescout’s products.

29. Although the Company’s software solutions had been available for many years, sales began to rapidly accelerate in 2017 because an increasing number and variety of IP-based devices, which are not manageable by IT departments, began entering and connecting to enterprise networks every day. Specifically, corporate-managed devices became a smaller percentage of the total device population as bring your own device to work (“BYOD”) and the Internet of Things (“IoT”) became a larger percentage of the total device population connecting to networks. As a result, the agent-based approach to device discovery no longer provided adequate security for many companies as IT departments were unable to force users to install agents on BYOD devices and many IoT devices did not have the ability to install agents.

30. The lack of security from BYOD and IoT devices created vulnerabilities and caused more cyberattacks to enter organizations by leveraging gaps in network visibility and vendor silos

1 as the significant increase in undetected and unmanaged devices on a network increased the surface  
2 area of attack for enterprises with cybercriminals targeting less secure devices with the same access  
3 levels as enterprise-managed devices (*i.e.*, desktops and corporate laptops).

4 31. The security innovation of Forescout's product offerings led to rapid revenue growth  
5 with sales growing from a reported \$71,113,000 in FY 2014, to \$125,959,000, or by more than 77%  
6 in FY 2015 and to \$166,841,000, or by more than 32% in FY 2016. The Company became publicly  
7 traded in an October 2017 IPO. For FY 2017, the Company reported that revenue had grown by  
8 more than another 32% to \$220,871,000. The Company continued its strong growth in FY 2018  
9 reporting that revenue once again had increased by more than 32% to \$297,651,000.

10 **B. Defendants Knew That the Market Was Shifting with Forescout Being Left Behind**

11 32. Plaintiffs consulted with David Linthicum, an internationally recognized expert on  
12 cloud computing, edge computing, application integration, enterprise architecture, service-oriented  
13 architecture, electronic commerce, and business-to-business systems. Mr. Linthicum was named  
14 one of the top nine Cloud Pioneers in Information Week, the #1 cloud influencer by Apollo  
15 Research, and is typically listed as a top ten cloud influencer, podcaster and blogger by various  
16 publications. He has previously served as the Chief Technology Officer of numerous public and  
17 private companies, published more than 7,000 articles and has been quoted in major publications,  
18 including *Forbes*, *Business Week*, *The Wall Street Journal* and the *LA Times*.

19 33. Mr. Linthicum agrees that the cybersecurity market began to shift dramatically  
20 towards the cloud between 2018 and 2020, but, based on his research and examination of  
21 Forescout's suite of product offerings during the Class Period, concludes that Forescout focused on  
22 enterprise security based on devices connected to local networks that did not provide value for the  
23 emerging cloud computing marketplace, which is dependent on processes and management of data  
24 outside the corporate firewall on public clouds.

25 34. Mr. Linthicum notes further that Forescout's products were not positioned for private  
26 clouds. Given the dramatic shift from enterprise-based information technology to public clouds  
27 hosted by Amazon, Google and Microsoft between 2018 and 2020, Mr. Linthicum states that the  
28 market increasingly sought cloud-based cybersecurity products that Forescout could not provide.

1 While most technology platforms began to dramatically shift from the enterprise to the public clouds  
2 and Forescout's competitors quickly adjusted to cloud-based cybersecurity solutions, Mr. Linthicum  
3 observes that Forescout continued to offer legacy technology between 2018 and 2020 that was not  
4 competitive with the offerings of its peers.

5 35. This is evidenced by DeCesare telling investors on November 6, 2019, that the  
6 Company did not expect to launch its core cloud-based product until late 2020. Instead, Forescout  
7 only launched a secondary cloud offering with cloud enabled features known as eyeSegment on  
8 November 6, 2019, but revenue from this product was immaterial in its financial statements with  
9 cloud-based sales of only \$22,000 in 2019, \$122,000 in the first quarter of 2020, and \$167,000 in  
10 the second quarter of 2020.

11 36. Mr. Linthicum's analysis of the state of the Company's business as it entered 2019  
12 is confirmed by CW8, a Named Account Manager ("NAM") in Forescout's Commercial division  
13 between February 2016 and October 2019, who states that sales began to substantially decrease in  
14 2019, and the rate of closed deals dramatically shrunk because customers believed that Forescout's  
15 competitors offered a better product than Forescout at a lower price. Due to the decreased sales,  
16 CW8 was able to hit only 25% of CW8's \$3 million quota for the year before CW8 left the Company  
17 in October 2019. The Company's product offerings are ideally suited for situations when the  
18 employees are all in one location and connecting to a physical network in that fashion but  
19 Forescout's products were substantially less effective for use in cloud computing or remote working  
20 situations. Several former Forescout employees identified this specific problem, including:

21 A. CW1, a former Senior Sales Development Representative ("SDR") who  
22 worked at Forescout from June 2018 to May 2019, who was responsible for reaching out to new or  
23 existing customers to inquire about the customers' interest in purchasing Forescout's products, and  
24 also set up meetings between the customers and a Forescout NAM, stated that in the beginning of  
25 2019, SDRs had serious difficulty in meeting their quotas for potential pipeline opportunities  
26 because of intense competition and a lack of customer interest in Forescout's products. CW1  
27 recalled that most SDRs were able to only meet 50% of their targets in the beginning of 2019.

1 B. CW2, a former SDR at Forescout from June 2016 to June 2019, corroborates  
2 CW1's account. According to CW2, Forescout's products had become difficult to sell, causing  
3 experienced sales employees to resign from Forescout.

4 C. CW3, Forescout's former Director of Americas – Business Values &  
5 Strategic Sales between July 2018 and February 2020, confirms that the Company struggled to sell  
6 its products in 2019 because customers encountered difficulties with understanding their value.  
7 CW3 also corroborated CW1's statement that Forescout was outcompeted by larger cybersecurity  
8 firms, which offered similar products at a lower price.

9 D. CW4, a Forescout SDR from January 2018 to January 2019 and a Forescout  
10 Inside Sales Representative from January 2019 to March 2019, corroborated both CW1's and  
11 CW3's statements that customers preferred larger and well-established vendors like Cisco Systems,  
12 Inc., over Forescout.

13 E. CW17, a Strategic Account Manager ("SAM") at Forescout from April 2019  
14 to February 2021, who sold Forescout's products to large enterprises in Houston, Austin and San  
15 Antonio, confirms the accounts of numerous other CWs and states that some sales employees  
16 voluntarily left the Company because Forescout's products were outdated, making sales to new  
17 customers he encountered extremely difficult with the close rate for new logos being no more than  
18 10%.

19 37. These operating problems did not immediately manifest themselves in the  
20 Company's reported operating results because of Forescout's relatively lengthy sales cycle and  
21 because existing customers were largely committed to Forescout's product platform. According to  
22 the Company's public filings made with the SEC, Forescout had a sales cycle of between nine and  
23 twenty-four months for sales to new customers and between three and twelve months for sales to  
24 existing customers. Thus, even though the Company started reporting sales shortfalls in May 2019,  
25 the underlying problems in the sales process manifested themselves months earlier.

26 38. Thus, according to CW12, a former Senior Business Operations Manager at  
27 Forescout from the beginning of 2018 through the beginning of 2020, deals previously identified as  
28 "committed" in the sales pipeline began evaporating in 2019. This caused many experienced sales

1 personnel to leave the Company voluntarily. Several former Forescout employees identified this  
2 specific problem, including:

3           A.       CW1 recalled that, as a result of competition in early 2019, more than a dozen  
4 SDRs left the Company in the beginning of 2019. CW1 confirms that the entire inside sales team  
5 was, in fact, dissolved in the spring of 2019, and a steady stream of sales employees from the  
6 division began to resign as a result. CW1 stated that at least twenty-five sales employees located in  
7 San Jose left the Company within the first few months of 2019.

8           B.       CW2 confirms that the Company was unable to close deals in 2019 and, as a  
9 result, a significant number of sales employees began to depart the Company in the first half of  
10 2019. CW2 asserts that employees at all levels from SDRs to NAMs to Regional Managers began  
11 to depart in the first half of 2019.

12       39.       In addition, the Company began eliminating sales representatives, which was  
13 particularly important because the Company informed investors that its sales representatives'  
14 productivity is directly tied to the duration of their tenure, with a 100% increase in productivity after  
15 the second year at Forescout, and 50% higher than second-year productivity in the third year at  
16 Forescout. Indeed, the Company reported that, as of December 31, 2018, 50% of its sales  
17 representatives had been with the Company for more than two years, compared to 35% as of  
18 December 31, 2017. *See, e.g.*, 2018 Form 10-K at p. 11.

19       40.       These voluntary and involuntary departures throughout 2019 caused a precipitous  
20 decline in the number of productive employees through the end of 2019 demonstrating and  
21 exacerbating the Company's inability to successfully sell its relatively outdated product offerings to  
22 larger government entities and financial companies. Several former Forescout employees identified  
23 this specific problem:

24           A.       CW6, the Company's former Director of Accounting from February 2019 to  
25 September 2019, stated that Forescout instituted a hiring freeze in the third quarter of 2019 in an  
26 attempt to increase its cash flow and blunt the impact of poor financial results.

27           B.       CW7, a NAM at Forescout between June 2018 and September 2019 who  
28 worked in the State, Local and Educational ("SLED") section of the Public Sector division with

1 responsibility for the upper Midwest region, asserts that the Company laid off a significant number  
2 of sales representatives in its Commercial division in February 2019. CW7 further states that the  
3 entire SLED section was eliminated in the third quarter of 2019, including high level executives like  
4 the Regional Director of SLED.

5 C. CW19, a former Strategic Enterprise Account Executive (“SEAE”) at  
6 Forescout from September 2019 to June 2020, confirms that the entire SLED section of the Public  
7 Sector division was eliminated in September 2019. CW19 further confirms that Forescout  
8 conducted layoffs in waves with cuts made in September 2019 and further cuts made in 2020,  
9 including in June 2020.

10 D. CW8 states that Forescout laid off a significant number of sales  
11 representatives dedicated to the healthcare and financial services industry in August 2019. CW8  
12 also stated that Forescout eliminated several employees who assisted with sales and marketing at  
13 that time.

14 E. CW16, a Channel Account Manager (“CAM”) at Forescout from December  
15 2015 to February 2020, who provided support for sales efforts in New England, New York City and  
16 Canada, recalls that there were numerous hiring freezes at the Company during CW16’s tenure, and  
17 a significant hiring freeze in 2019. According to CW16, Forescout initiated major layoffs in the  
18 summer of 2019 in an attempt to “get leaner” in anticipation of a planned sale of the Company,  
19 demonstrating that Forescout formed the intent to seek buyers and go private long before it hired  
20 financial advisors in anticipation of the Merger in October 2019.

21 F. CW17 confirms that Forescout conducted five rounds of layoffs between  
22 April 2019 and February 2021 and that major cuts in the sales force took place in the summer of  
23 2019. CW17 further states that another significant round of layoffs took place in January 2020, and  
24 the layoffs occurred at a quicker pace in anticipation of a planned acquisition of the Company.

25 G. CW18, a former senior executive at Forescout who served as the Global  
26 Talent and Enablement Manager (“GTEM”) at the Company from June 2018 to December 2020 and  
27 trained and supervised NAMs and other sales representatives, stated that, in June 2018, Forescout  
28 had 400 employees in its sales organization, including 200 sales representatives. By the end of 2019

1 and the beginning of 2020, CW18 stated that the total sales force had shrunk to 300 employees.  
2 According to CW18, Forescout's long sales cycle required sales representatives to spend years  
3 working at the Company to be able to close deals. However, between 2019 and 2020, CW18 recalls  
4 that Forescout replaced 100 experienced sales representatives with inexperienced ones who were  
5 unable to close deals given the lengthy sales cycle. In 2019 alone, CW18 states that Forescout fired  
6 or otherwise lost through voluntary departures between twenty-five and thirty "ramped up" NAMs.  
7 According to CW18, the NAMs were let go or left on their own as soon as they had been "ramped  
8 up," and replaced with NAMs who did not have two years of experience. CW18 asserts further that  
9 in late 2019 or early 2020, Forescout laid off another 30% of its sales force or about one hundred  
10 sales representatives, including the entire team of sixty SDRs and Business Development  
11 Representatives ("BDRs"). At a sales kick off meeting held a week or so after these additional cuts,  
12 CW18 heard DeCesare state that Forescout reduced its sales force in 2019 and additional cuts needed  
13 to be made in early 2020 because the Company had failed to grow revenues in 2019.

14 H. CW17 also identified similar layoffs having taken place during the summer  
15 in 2019, a fact which is confirmed by CW16, a former CAM at Forescout. CW8, a NAM in  
16 Forescout's Commercial Division, fixes that date as being in August 2019. This appears to include,  
17 according to CW19, a former SEAE, the Company's elimination of the entire SLED sales team in  
18 or about September 2019. The elimination of the entire SLED team is confirmed by CW7, who  
19 worked for the SLED team.

20 41. These reductions in experienced sales staff were material and demonstrated the  
21 Company's lack of success in attracting new customers because, as Forescout recognized in its  
22 public filings, experienced sales representatives were a key driver of growth at the Company. 2018  
23 Form 10-K at pp. 7 and 11. Similarly, DeCesare, on a May 2019 earnings conference call, publicly  
24 tied the amount of time a NAM had been at Forescout to the visibility of the Company's pipeline  
25 (*i.e.*, the longer a sales representative was at Forescout, the greater the likelihood that the sales  
26 representative would generate more deals and greater revenue).

27 42. The existence of these 2019 sales representative layoffs was not separately disclosed  
28 by the Company. However, a careful reading of the Company's Form 10-K for FY 2019, filed with

1 the SEC on February 28, 2020, reflects an otherwise unexplained decline in the Company's  
 2 experienced salesforce with only 38% of sales representatives having been with the Company for  
 3 more than two years, down from 50% the prior year. *See* Form 2019 Form 10-K at p. 11.

4 43. DeCesare, Redman and other C-suite executives used a Salesforce revenue  
 5 operations platform add-on called Clari, which utilized artificial intelligence and machine learning  
 6 algorithms to find patterns, identify risks and make forward-looking predictions. These tools  
 7 provided DeCesare, Redman and other C-suite executives with “surface predictive insights so [the  
 8 Company] *always knows what’s going on with [its] reps, deals, pipeline and forecast in purpose-*  
 9 *built applications.*” *See* <https://www.clari.com/why-change/> (emphasis added). These machine  
 10 learning tools further provided DeCesare, Redman and other C-suite executives with: “a company-  
 11 wide forecasting workflow that continuously rolls up across teams, product lines, geographies and  
 12 market segments. *Your forecast is always up-to the-minute and accurate—whether you have five*  
 13 *sales reps or 5,000.*” *Id.* (emphasis added). DeCesare, Redman and other C-suite executives further  
 14 used Clari to “know when [they] were short on pipeline, see which deals are at risk, predict outcome  
 15 early in the quarter, spot churn risk before its too late, track sales and buyer activities, and manage  
 16 forecast calls, 1:1 and QBRs.” *Id.*

17 44. Defendants admitted that they had made use of all the available internal reporting  
 18 tools at Forescout regarding the sales pipeline and the status of potential deals. Thus, on Forescout's  
 19 May 9, 2019, earnings conference call, Defendant DeCesare told an analyst from Berenberg that  
 20 “sales execution is certainly – or sales ramping and productivity is always one of those areas that  
 21 both [Harms] and I spend a lot of time on.” Similarly, on Forescout's August 7, 2019 earnings  
 22 conference call, Defendant Harms told a UBS analyst that he and DeCesare analyzed and “probe[d]”  
 23 the sales pipeline, spent time in the field “asking the additional question as it relates to customers[']  
 24 buying preferences,” and “all of that is baked into how we are guiding for the full year.”

25 45. Several former employees of the Company confirm that DeCesare and Harms had  
 26 real-time access to, and knowledge of, the deteriorating sales pipeline and the rapid decline in sales  
 27 productivity:  
 28

1           A.       CW10, a NAM at Forescout from January 2017 to July 2019, stated that sales  
2 pipeline reports generated on the Salesforce platform were compiled regularly and delivered to  
3 Redman, who DeCesare identified as the key high-level executive with responsibility over global  
4 sales and revenues during the Class Period. CW10 further explained that Brian Gumbel  
5 (“Gumbel”), Forescout’s head of worldwide sales, received automatic alerts regarding the details of  
6 any potential deal worth \$1 million or more that was entered as a potential opportunity in the  
7 Salesforce platform.

8           B.       CW7 was told by CW14, the Regional Director of the SLED section until  
9 December 2019, and other senior managers that the purpose of updating the status of major  
10 opportunities in the pipeline on the Salesforce platform was because Gumbel *and* DeCesare both  
11 reviewed the data on the Salesforce platform, and then asked CW7 specific questions about specific  
12 deals.

13           C.       CW8 states that CW8 participated in monthly conference calls with Niels  
14 Jensen (“Jensen”), Forescout’s Senior Vice President of Sales for the Americas, and Redman to  
15 discuss the details of the Company’s sales pipeline, including forecasts and the status of specific  
16 deals. CW8’s immediate supervisor, the Regional Sales Director of the Commercial Division,  
17 relayed questions from Defendant DeCesare regarding large deals in CW8’s sales pipeline. CW8  
18 stated that DeCesare specifically inquired about the technology fit, budget, timeline, and competitive  
19 pressure regarding all deals that were over a \$1 million. CW8 said that this was par for the course  
20 as DeCesare was an extreme micromanager.

21           D.       CW16 states that Defendant DeCesare held quarterly internal business review  
22 calls where he provided updates on the sales pipeline, including “tech wins.” During these quarterly  
23 review calls, which were attended by the Company’s sales employees, including CW16, DeCesare  
24 discussed “tech wins” as cases that could be utilized to pitch other deals to customers.

25           E.       According to CW17, Forescout’s most senior executives, including DeCesare  
26 and Redman, used Clari to monitor sales deals and the Company’s forecasts. CW17 states that Clari  
27 provided a more visual and easy-to-read view of sales data. This testimony is confirmed by the  
28

1 reference to a sales pipeline predictor tool in the Delaware Litigation. *See* Counterclaim Answer  
2 ¶26.

3 F. CW18 states that DeCesare was heavily involved in managing larger clients  
4 and acted as the sales representative himself for any multi-million-dollar deal. According to CW18,  
5 it was common knowledge at the Company that DeCesare would get together with clients in face-  
6 to-face meetings, pitch Forescout's products to them and participate in all calls in an effort to  
7 micromanage the process. According to CW18, "the rep would still be there, but Mike would lead  
8 the show because Mike started his career as a salesperson, and he liked being part of deals."

9 G. CW18 corroborates the account of CW17 that DeCesare, Redman and other  
10 senior executives viewed sales pipeline data on Clari, which provided them with knowledge of  
11 where a particular deal stood in the process towards a commitment or closing.

12 H. CW20 was a Senior Deal Desk Manager at Forescout from August 2018 to  
13 April 2020, who worked directly with sales representatives on the East Coast to structure deals and  
14 make proposals to customers. CW20 reported directly to the Director of the Global Deal Desk,  
15 Mick Roberts ("Roberts"), who reported to the Senior Vice President of Revenue Operations, Aaron  
16 Martin ("Martin"), who in turn reported directly to DeCesare. CW20 reports that DeCesare held  
17 weekly forecasting calls with Martin, who provided DeCesare with updates on all deals valued at or  
18 above \$500,000. CW20 states that, during these weekly calls, DeCesare and Martin extensively  
19 discussed the sales pipeline, including deals that were expected to close or not expected to close,  
20 and whether any other steps were required to help facilitate closing such as legal review of customer  
21 contracts. CW20 knows this because, in preparation for these weekly calls between DeCesare and  
22 Martin, CW20 prepared updates that Martin provided to DeCesare regarding deals valued at  
23 \$500,000 or more by utilizing Smartsheet, a software program that gathered all pertinent information  
24 from Salesforce data concerning the specific status of deals. CW20 was told by Roberts that updates  
25 on Smartsheet were required to be prepared because Martin presented the information contained in  
26 them to DeCesare in weekly meetings.

27 I. CW20 also inputted granular data in Smartsheet about the status of deals  
28 worth \$500,000 or more, including the status of negotiations with the customer, the steps needed to

1 be taken to close the deal, and the expected dollar amount for each customer contract. According  
 2 to CW20, Martin also had access to Smartsheet and supervised CW20's and other employees' work  
 3 in connection with updates he would regularly provide to DeCesare.

4 J. During the beginning of each quarter, Martin asked CW20 and other  
 5 members of the Deal Desk team to provide updates every two weeks about the status of all deals  
 6 valued at or above \$500,000. CW20 recalled that information was updated on Smartsheet on, at  
 7 least, a weekly basis after a month into any quarter of the year. In an effort to incorporate accurate  
 8 and timely information about the status of deals, CW20 regularly communicated with NAMs and  
 9 other sales employees.

10 K. CW20 also attended quarterly "all-hands" conference calls where DeCesare  
 11 discussed the Company's performance in any given quarter, including its revenue forecasts,  
 12 bookings and the status of potential "tech wins." CW20 heard DeCesare discuss the Company's  
 13 lack of progress in meeting sales goals for acquiring "net new logos." According to CW20, the  
 14 Company failed to meet its target for "net new logos" in 2019.

15 L. Corroborating the accounts of numerous other CWs, CW20 states that  
 16 DeCesare and other senior executives utilized Clari to regularly monitor deals, and by using Clari,  
 17 Forescout's C-suite executives, including DeCesare and Redman, saw all the deals included in the  
 18 Company's forecasts, including notes from the sales team on the status of negotiations and the steps  
 19 remaining to close a deal. CW20 confirms that deals at Forescout were regularly forecasted  
 20 improperly because all the steps required to close the deal had not even taken place. CW20 further  
 21 confirms that deals without a proof of concept or a "tech win," which CW20 explained was a deal  
 22 that was actually awarded to Forescout, were forecasted to close three weeks before the end of the  
 23 quarter even though Forescout's sales cycle was significantly longer than that short amount of time,  
 24 and deals would then naturally and eventually "slip" into the next quarter as a result.

25 **C. Defendants Know that the Revenue Guidance Provided to Investors Is Based on Faulty**  
 26 **Assumptions**

27 46. The Company's reported quarterly results during 2019 fell below FY 2018's reported  
 28 growth in revenues and were consistently and materially below the full year revenue guidance,

1 which the Company started providing on February 7, 2019. Thus, in Q1 2019, Forescout reported  
 2 that total revenue growth had slowed from the 42% year over year growth reported in Q1 2018 to  
 3 27% year over year growth in Q1 2019. *See* Q1 2019 Form 10-Q at p. 19. The reported decline in  
 4 growth rates worsened in Q2 2019 with the Company reporting year over year revenue growth of  
 5 16% compared to 35% for Q2 2018. *See* Q2 2019 Form 10-Q at p. 20. By Q3 2019, the decline  
 6 had accelerated with the Company reporting year over year revenue growth of 7% compared to  
 7 reported revenue growth of 23% for Q3 2018. *See* Q3 2019 Form 10-Q at p. 21. In addition, the  
 8 disclosure in the Q3 2019 Form 10-Q was notable because, unlike the prior periods' Form 10-Qs, it  
 9 failed to break out revenue growth and the related decline in the rate of revenue growth by the  
 10 specific categories of license revenues, subscription revenues and professional services revenue.  
 11 *Compare* Q1 and Q2 2019 Form 10-Qs *with* Q3 2019 Form 10-Q.

12 47. Defendants publicly attributed this decline in sales growth to a series of non-  
 13 recurring delays, *i.e.*, one-offs, such as bureaucratic delays in customers finalizing orders, a shift to  
 14 a subscription revenue model and finally, in Q3 2019, deteriorating macroeconomic conditions in  
 15 the EMEA region, which region accounted for 16.1% of the Company's revenues in 2019, 17.5%  
 16 of the Company's revenues in 2018, and 16.3% of the Company's revenues in 2017. *See* 2019 Form  
 17 10-K at p. 110. In other words, sales were delayed but would materialize because the Company still  
 18 had the "technology win" based upon its product offerings.

19 48. However, in truth and in fact, Defendants knew that the culprit for missed revenue  
 20 guidance was basically two-fold: the shift in customer demand to products which were better suited  
 21 to the increasing trend towards cloud computing and remote work (*see* ¶¶33-34, *supra*); and an  
 22 inadequate internal system for projecting future revenue.

23 49. The Company included sales designated as "committed" in creating projections  
 24 according to CW18 and CW19. Defendants, however, knew that the resulting revenue projections  
 25 were inflated and, because of that, according to CW18, beginning in June 2018 with the help of  
 26 Force Management, a consulting firm that helps companies build sales teams and improve revenues,  
 27 instituted a new system, designed to provide greater structure and more certainty to the method for  
 28 projecting future revenue known as the "Customer Engagement Process" ("CEP").

1           50. CEP was developed in the middle of 2018 in consultation with Force Management.  
2 CW18 states that Force Management told senior executives at Forescout in 2018, including CW18,  
3 that implementation of the CEP model would result in a majority of deals categorized as  
4 “committed” by the Company as not actually locked down as “committed” deals. CW18 stated  
5 that the CEP model had seven rigorous steps, each linked to a percentage of likelihood that a given  
6 deal would close: Prospect (0%), Qualify (10%), Present (30%), Prove (50%), Purpose (70%),  
7 Negotiate (90%) and Closed-Won (100%). CW18 explained that each one of these steps was  
8 associated with specific tasks that needed to be completed before a deal could move on to the next  
9 step. CW18 estimates that a majority of Forescout’s forecasts for “committed” deals were, in fact,  
10 generated based on the “Prove” category where deals had only a 50% chance of closing and hence  
11 could not constitute “tech wins.”

12           51. CEP was scheduled to be fully implemented in the beginning of 2019 and reflected  
13 that a very large number of sales recorded as “committed” by sales representatives were, in fact,  
14 highly unlikely to be made. However, rather than acknowledge reality, Defendants simply refused  
15 to implement CEP and continued to project revenues based upon the prior faulty system that  
16 categorized deals as “committed” when they had only a 50% chance of success.

17           52. Compounding this failure was that starting at least by the beginning of 2019,  
18 Defendants engaged in a pressure campaign by forcing NAMs and other sales representatives to  
19 miscategorize deals as “committed” in order for the Company to be able to project continued rapid  
20 increases in sales even though, in fact, there were no actual commitments from buyers:

21           A. CW9 was a NAM at Forescout from 2014 to February 2019. CW9 stated that  
22 CW9’s immediate boss instructed CW9 to move a \$1 million deal from the upside category to the  
23 committed category, so that the Salesforce platform would show a \$1 million increase in revenue  
24 for the quarter even though a customer had not committed to the deal.

25           B. CW10 described \$1 million worth of deals that CW10 inherited as “mostly  
26 BS.” Forescout expected these deals to close, but when CW10 directly spoke to the customers, they  
27 told CW10 that they were not interested in acquiring any of Forescout’s products.  
28

1 C. In July 2019, CW7, another NAM in the public sector division worked on a  
2 deal for the University of Wisconsin – Madison (“UWM”). CW7 participated in a conference call  
3 with Jensen and a procurement officer for UWM. According to CW7, UWM’s procurement officer  
4 flatly informed Jensen that UWM would not place a purchase order before September 2019 as  
5 Jensen requested. Right after this conference call with UWM, CW14 called CW7 and told CW7  
6 that Jensen wanted CW7 to list the close date for the UWM project on or before the end of  
7 September 2019. CW7 states that the UWM project never materialized.

8 D. CW11 was a NAM at Forescout’s Enterprise division between December  
9 2018 and September 2019. CW11 was forced to report closing dates that were sooner than CW11  
10 had forecast for deals worth \$1.2 million. CW11 learned from other colleagues after leaving the  
11 Company that at least one of these deals did not close before the end of the third quarter of 2019.

12 E. According to CW12, in the middle of 2019, NAMs at Forescout became  
13 concerned that deals listed as “committed” in the sales pipeline would not materialize as they did  
14 not just fall through, but “evaporated.”

15 F. CW13 was a Senior Administrative Assistant and Office Manager at  
16 Forescout between November 2018 and March 2020. CW13 joined Forescout in November 2018  
17 when Forescout acquired SecurityMatters, an information technology company based in the  
18 Netherlands with its U.S. operations in New Hampshire, which specialized in providing security  
19 solutions for industrial threats and flaws. According to CW13, SecurityMatters sales employees  
20 were pressured by Forescout’s senior managers to list deals as “committed” even though  
21 SecurityMatters’ sales employees knew that there was no actual commitment from buyers. CW13  
22 further stated that Jim Crowley, the head of sales at SecurityMatters, left Forescout in January 2020  
23 because he was fed up with Forescout’s pressure campaign. CW13 further stated that the pressure  
24 to fudge the sales numbers at SecurityMatters came directly from DeCesare.

25 G. CW14 corroborated CW7’s allegations, and states that the pressure campaign  
26 to include illusory deals in the sales pipeline was instigated by both Jensen and Redman.

**D. Defendants Act to Sell the Company Before Revenue Comparisons Turn Negative**

53. The Company put itself up for sale in October 2019. The explanation offered was that even though the Company's product offerings were in heavy demand, short-term dislocation caused by, among other things, the transition to subscription fee arrangements, would be better managed in a non-public reporting company setting.

54. Key to Defendants' effort to obtain a premium price for the Company was to portray Forescout as still being a growth company with a steadily increasing revenue flow that had been sidelined by a series of one-offs during 2019. In order to do so, the Company would need to avoid reporting a further decline in revenue growth for Q4 2019 and project a resumption in growth more in line with Forescout's historical results.

55. The Company reported Q4 2019 revenue of \$91.3 million, representing 8% year-over-year growth from Q4 2018, which was disappointing but still not a continued decline in growth from the 7% reported in Q3 2019. In addition, in connection with a sales process in which the Company hired Morgan Stanley to shop itself to potential acquirers, it prepared two alternative forecasts projecting 2020 revenue of \$389 million and \$386 million, reflecting anticipated 30.6% growth in reported revenue from 2019. In other words, Defendants' revenue model continued to assume that sales had simply "slipped" from 2019 into 2020.

56. As Defendants knew, the true situation at the Company was substantially more dire with internal Illustrative Guidance prepared in January 2020 reflecting projected 2020 revenue of \$355 million – a full 10% below the projections provided to potential acquirers – with projected Q1 2020 revenue of \$62 million, reflecting an 18% expected *decline* from Q1 2019 reported revenues. Defendants later acknowledged that at least by January 2020 a fundamental shift had taken place in Forescout's business operations causing the reduced revenue projections contained in the Illustrative Guidance. See Preliminary Proxy Statement dated March 3, 2020 (the "Preliminary Proxy Statement") at pp. 42-44; and Proxy Statement dated March 24, 2020 (the "Proxy Statement") at pp. 42-44. However, as demonstrated above, that fundamental shift had, in fact, taken place much earlier in 2019. See ¶¶32-36, *supra*.

57. However, even the more realistic and dire projections offered by the Illustrative Guidance were not tied to reality. CW19, a SEAE who worked at Forescout from September 2019 to June 2020 recalls an in-person meeting at the “sales kickoff” event in January 2020 where, during a breakout session, the Vice President of the Americas for Forescout, Matt Hartley (“Hartley”), who oversaw all American sales at Forescout towards the end of the Class Period, instructed sales representatives to list deals as “committed” into the Salesforce platform only on the basis of a single conversation with a potential customer’s C-suite executives or employees in the procurement group.

58. Therefore, it was unsurprising to Defendants when Q1 2020 reported revenue came in at \$57.2 million, more than 10% below the \$62 million in the Illustrative Guidance, representing a 24% *decline* in revenue from Q1 2019 revenues, and that decline was only achieved through a multi-million-dollar discounted sale of hardware at a loss. As Advent explained in the Delaware Litigation, “even with several highly unnatural (and detrimental) actions taken by Forescout to pull additional bookings into the quarter,” Forescout’s financial performance “*dropped off a cliff*, compared to its actual Q1 2019 performance, and importantly, *compared to its peers*.” Answer and Counterclaim ¶32 (footnote omitted, emphasis added).

59. Similarly, Q2 2020 results, although not reflecting a decline in year over year review, came in at \$79.9 million, representing only a 2% increase in revenue from Q2 2019. Eventually, in July 2020, Defendants provided updated projections reflecting 2020 revenue of \$321 million, a 10.5% decline from even the Illustrative Guidance and a more substantial decline from the projections provided to potential acquirers with a similar decline in expected FY 2021 from \$417 million in guidance provided to potential acquirers in February to \$317 million.

**E. Advent Agrees to Acquire Forescout for \$33.00 Per Share Which Promises to Enrich DeCesare and Harms**

60. Defendants’ deception bore fruit when on February 6, 2020, Advent, a well-respected private equity firm, acting through Ferrari Group Holdings, L.P and Ferrari Merger Sub, Inc. (collectively “Ferrari”), entered into the Original Merger Agreement pursuant to which it agreed to purchase Forescout for \$33.00 per share in the Planned Acquisition.

61. The Planned Acquisition promised to substantially enrich both DeCesare and Harms, as they were set to receive \$33.5 million and \$8.95 million for their Forescout RSUs and PSUs, respectively. In addition, DeCesare and Harms stood to receive golden parachutes valued at \$10.8 million and \$5.185 million, respectively. In contrast, had the Company not entered into the Merger Agreement, both DeCesare and Harms were threatened with the loss of their jobs by an activist investor (*see* Proxy Statement at 37-38), the stock they owned would have traded for much lower values (*see* Form 10K/A at page 31 (showing DeCesare and Harms beneficially owned 898,623 and 174,034 shares of common stock as of December 31, 2019, respectively)), and many, if not all, of their PSUs would have been underwater without the Original Merger Agreement.

**F. Advent Expresses Concern About Proceeding With, and Then Refuses to Close on, the Original Merger Agreement**

62. The Company's required disclosures in connection with soliciting shareholder approval through the Preliminary Proxy Statement filed on March 3, 2020 and the Proxy Statement, revealed that by the time Advent had signed the Original Merger Agreement, Forescout no longer believed in the veracity of its previously provided projections upon which the Planned Acquisition had been premised because of an acknowledged shift in the Company's business and that the Illustrative Guidance it was planning to provide to investors reflected substantially lower projected revenues.

63. As a result, the Company's relationship with Advent started to sour after the March 3, 2020 filing of the Preliminary Proxy Statement. This situation worsened by March 24, 2020—the same day the Company issued the Proxy Statement—by which point it had become clear that Forescout would not even achieve the \$62 million Q1 2020 revenue target in the Illustrative Guidance.

64. As these adverse facts were disclosed regarding the Company's operations and future business prospects, Advent was pressing for updated forecasts, which Forescout refused to fully provide, that were needed to obtain funding to close on the Original Merger Agreement. Thus, on March 27, 2020 and April 6, 2020, Forescout prepared updated forecasts which Advent considered to be of low quality because they contained troubling analysis.

1           65.       On April 20, 2020, Advent informed Defendants that it was unsure whether it could  
2 proceed with the terms of the Original Merger Agreement. The Tender Offer Recommendation  
3 explains (at p. 32) that Advent stated that it “was reviewing Forescout’s business, operations, future  
4 prospects and financial condition in order to assess whether the conditions to closing provided in  
5 the Original Merger Agreement would be met.” Defendants, recognizing the distinct and real risk  
6 that Advent would seek to back out of the Original Merger Agreement, began internally discussing  
7 the Company’s options should Advent act in that manner.

8           66.       Nonetheless, Defendants began framing all their discussions with Advent and public  
9 disclosures to investors as based upon a certainty that the Planned Acquisition would close as  
10 planned on May 18, 2020 for \$33.00 per share as purportedly required by the Original Merger  
11 Agreement.

12           67.       On May 5, 2020, Advent learned from a whistleblower email that Forescout had been  
13 manipulating its results, including in Q4 2019, by selling products to Merlin in order to improperly  
14 accelerate revenue recognition.

15           68.       On May 8, 2020, a representative of Advent told DeCesare that Advent could not  
16 “make the numbers work” for the Planned Acquisition and expressed concerns regarding whether  
17 conditions precedent to the Planned Acquisition would be met. Answer and Counterclaim ¶8.

18           69.       On May 11, 2020, Forescout disclosed its results for Q1 2020. In reaction to this  
19 disclosure, the price of Forescout’s common stock declined by nearly 5% from its closing price of  
20 \$32.09 on the previous day, to close at \$30.50 per share on May 12, 2020, on heavy trading volume.

21           70.       On May 18, 2020, Forescout shocked investors by disclosing that Advent was  
22 refusing to proceed with the Planned Acquisition of the Company for \$33.00 per share. Instead,  
23 Advent had sent the Termination Letter to Forescout on May 15, 2020, identifying its bases for  
24 refusing to proceed with the Planned Acquisition, including that:

25                   A.        “[B]ased on the Company’s actual recent financial performance, information  
26 received from the Company regarding the Company’s expected future financial performance for the  
27 fiscal year 2020 and beyond, it is clear that the Company’s decline in earnings potential and financial  
28 performance will last for a durationally significant period of time”;

1 B. Forescout “is continuing to provide non-standard discounts and payment  
2 terms on its products to a significant number of customers [which] are material and substantially  
3 adversely affect the near- and long-term prospects of the Company”; and,

4 C. If the Acquisition were to be consummated, “the Company would not be  
5 solvent ... under any relevant test of solvency” because, among other things, “the Company’s debts  
6 will likely exceed its estimated enterprise value.”

7 71. In reaction to the Company’s disclosure of Advent’s refusal to proceed with the  
8 Acquisition and the statements contained in the Termination Letter, which the Company publicly  
9 disclosed at that time, Forescout’s stock plummeted by nearly 24% from its closing price of \$29.52  
10 on the previous day to close at \$22.57 per share on May 18, 2020, \$20.93 on May 19, 2020, and  
11 \$19.84 per share on May 20, 2020.

12 72. This price implosion followed a previous decline in the price of the Company’s stock  
13 on May 11, 2020, when Forescout reported revenues of \$57.2 million for Q1 2020, well below the  
14 \$62 million the Company had provided as its Illustrative Guidance for Q1 2020 and the \$355 million  
15 then projected for 2020, and further below the projected Alternate Plan provided to Advent on  
16 January 27, 2020, which projected revenue of \$386 million for 2020. The Company’s disastrous  
17 results were only able to be achieved by receiving revenue of \$4.787 million by selling hardware at  
18 approximately 8% *below* cost, compared with margins from the year-prior of 24%, in transactions  
19 described as “one offs.” *See* Q1 2020 Form 10-Q at 26.

20 **G. Facts Revealed in SEC Filings and the Delaware Litigation Establish the Falsity of**  
21 **Defendants’ Earlier Statements**

22 73. On May 19, 2020, Forescout filed a Verified Complaint in Delaware Chancery Court  
23 seeking, among other things, an Order requiring Advent – or more precisely Ferrari – to proceed  
24 with the Acquisition on the terms described in the Merger Agreement, *i.e.*, for \$33.00 per share. *See*  
25 Forescout Complaint and Prayer for Relief ¶C. Advent answered the Complaint and asserted a  
26 counterclaim with respect to which Forescout filed an answer.

27 74. On July 15, 2020, Advent and Forescout ultimately settled the Delaware Litigation  
28 with Advent entering into a revised merger agreement pursuant to which Ferrari would make a

1 tender offer for Forescout's stock at \$29.00 per share pursuant to a revised acquisition agreement  
2 (the "Revised Acquisition"), representing an approximately \$300 million discount from the  
3 Proposed Acquisition as provided for in the Original Merger Agreement.

4 75. On July 20, 2020, the Company filed the Tender Offer Recommendation with the  
5 SEC, recommending that Forescout shareholders tender their stock to Ferrari for \$29.00 per share.

6 76. On August 14, 2020, the tender offer closed and Advent completed its acquisition of  
7 Forescout for \$29.00 per share.

8 77. The pleadings in the Delaware Litigation and the Tender Offer Recommendation  
9 disclosed the following material adverse facts which Plaintiffs and other public investors had not  
10 previously known:

11 A. On April 20, 2020, Advent sent a letter to the Company stating that it "was  
12 reviewing Forescout's business, operations, future prospects and financial condition in order to  
13 assess whether the conditions to closing provided in the Original Merger Agreement would be met."  
14 Tender Offer Recommendation at 32;

15 B. On May 8, 2020, "**Advent Signal[ed] its Intention to Renege on the**  
16 **Merger Agreement**" (Delaware Complaint at p. 38 (emphasis in original));

17 C. Two multinational professional services companies that were substantial  
18 business partners as well as a third major business partner of Forescout terminated their relationships  
19 with the Company and the Company lost several customers after the Acquisition was announced  
20 (Delaware Complaint ¶93);

21 D. Advent was sufficiently skeptical of the guidance previously provided by  
22 Forescout in connection with negotiating the terms of the Planned Acquisition and other due  
23 diligence that it received that, by April 14, 2020, it had prepared its own forecasts of the Company's  
24 expected results for 2020 and 2021 (Delaware Complaint ¶70, Answer and Counterclaim ¶37);

25 E. Forescout had routinely engaged in end-of-quarter discounting of products  
26 for sale which appeared to be designed to meet public projections (Delaware Complaint ¶94).

1 F. In response to the Termination Letter, Forescout initially engaged “in an  
2 effort to find a resolution that would result in Advent consummating an acquisition of Forescout”  
3 (Tender Offer Recommendation at 32);

4 G. A July 2020 forecast (the “July Case”) serving as the basis for the fairness  
5 opinion provided by Morgan Stanley in connection with the Tender Offer Recommendation  
6 reflected 2020 revenues of \$321 million, materially lower than the \$386 million to \$389 million  
7 range originally provided to Advent and also below the 2020 projection of \$355 million contained  
8 in the Illustrative Guidance (Tender Offer Recommendation at 45; Proxy Statement at 61, 63-65);  
9 and,

10 H. The July Case reflected that, contrary to the projections originally provided  
11 to Advent of 15% growth in revenue for FY 2021, revenues were expected to be flat with those of  
12 2020 (Tender Offer Recommendation at 44-45).

13 78. In addition, other SEC filings made by Forescout after the Acquisition’s  
14 announcement on February 6, 2020 revealed the following additional facts demonstrating that the  
15 Company’s prior public statements were materially false or misleading at the times they were made:

16 A. Auditing the timing of the Company’s revenue recognition was “challenging”  
17 and that “certain arrangements required judgment to determine the distinct performance obligations  
18 and the appropriate timing of revenue recognition” (2019 Form 10-K at 73);

19 B. The level of Forescout’s sales force experience had declined from 50% to  
20 38% having been with the Company for more than two years during 2019 (2019 Form 10-K at 11);  
21 and,

22 C. Forescout, during Q1 2020, had restructured its sales force, eliminating  
23 approximately 90 employees within the sales, marketing, and engineering functions (Q1 2020 Form  
24 10-Q at 17).

25 **H. Materially False or Misleading Statements**

26 79. These material facts caused a series of statements made between February 7, 2019  
27 and May 11, 2020 to be materially false or misleading. These facts were, as alleged above and as  
28

1 alleged below with respect to each particular statement, at all relevant times known to or recklessly  
2 disregarded by Defendants:

3 **1. The February 7, 2019 Press Release and Form 8-K**

4 80. On February 7, 2019, Forescout issued a press release announcing its financial results  
5 for the fourth quarter of 2018, and for the full fiscal year that ended on December 31, 2018. This  
6 press release also provided revenue guidance within the range of \$363.1 million to \$373.1 million  
7 for FY 2019, representing year-over-year growth of 24% at the midpoint.

8 81. Forescout's revenue guidance was materially false or misleading because it lacked  
9 any objective basis and, in fact, was inconsistent with Forescout's actual performance, which was  
10 known to Defendants, at the time this guidance was disclosed. The objectively false nature of this  
11 guidance is evidenced by: (a) the shift in the market for cybersecurity products towards the cloud in  
12 2018, well before the Class Period, resulted in significant pricing pressure from Forescout's  
13 competitors who offered cloud delivered services when Forescout could not launch its core cloud-  
14 based security software until late 2019 (*see* ¶¶33-37, *supra*); (b) the Company already having  
15 experienced the loss of experienced sales representatives necessary to help drive sales growth (*see*  
16 ¶¶38-41, *supra*); (c) DeCesare and Harms receiving regular analytical reports regarding Forescout's  
17 sales pipeline and their involvement in the sales process (*see* ¶¶44-45, *supra*); and (d) the February  
18 7th guidance facilitating the sale of over \$29 million worth of common stock by the Pitango Group  
19 of venture capital funds in which Rami Kalish, the Vice Chairman of the Board, was a partner.

20 82. Defendants knew, as of February 7, 2019, that most deals in Forescout's pipeline  
21 barely had a 50% chance of success because, CW18, Forescout's former GTEM, together with  
22 Redman and Gumbel, developed a new sales tracking methodology known as the CEP which was  
23 scheduled to be implemented by the Company in early 2019 which Defendants then refused to fully  
24 implement. *See* ¶¶49-51, *supra*.

25 83. CW18 explains further that the CEP model was never implemented at Forescout  
26 because implementing its structured methodology would have forced the Company to recognize that  
27 a large proportion of deals identified as "committed" would, in fact, not close because of the failure  
28 to obtain consent from the "economic buyers," such as clients' CFOs, to proceed forward with large

1 transactions. Thus, CW18 states that he was able to recognize based upon the CEP model that *the*  
2 *Company would miss its sales targets for the next three or four quarters consecutively* just as  
3 Force Management had already warned senior executives at Forescout before the Class Period.

4 84. There is additional corroboration that Forescout had a Company-wide policy of  
5 identifying deals as “committed” even when deals were only in the negotiations stage. CW19, a  
6 SEAE who worked at Forescout from September 2019 to June 2020, recalls an in-person meeting  
7 at the “sales kickoff” event in January 2020 where, during a breakout session, the Vice President of  
8 the Americas for Forescout, Matt Hartley (“Hartley”), instructed sales representatives to list deals  
9 as “committed” into the Salesforce platform only on the basis of a single conversation with a  
10 potential customer’s C-suite executives or employees in the procurement group. Hartley oversaw  
11 all American sales at Forescout towards the end of the Class Period.

12 85. According to CW19, at this breakout session in January 2020, where CW19 was  
13 present, CW19 heard Hartley tell sales personnel that deals should be identified as “committed” in  
14 the Salesforce platform “once the negotiations started” even though there was never a real  
15 commitment from potential customers such as a purchase order or other indicia of a real  
16 commitment.

17 86. Rather than implementing CEP, CW9 explained that Forescout categorized deals into  
18 three key areas: (1) committed deals expected to close during a certain quarter, (2) upside deals that  
19 had a 50-50 chance of closing in a particular quarter, and (3) pipeline deals where the Company had  
20 simply engaged in a discussion with a customer without any commitment. CW9 described constant  
21 pressure from upper management to list deals as “committed” as a juggling act whereby Forescout  
22 placed uncertain deals into the committed category to support its misleading forecasts. Indeed, CW9  
23 had been pressured to identify a seven figure deal as committed no later than February 2019 even  
24 though there was no commitment from a buyer given that CW9 was no longer employed at  
25 Forescout in February 2019. Hence, given that Forescout resorted to its past practice of including a  
26 majority of deals with only a 50% chance of success in its forecasts and chose to abandon the CEP  
27 despite knowing what its implementation would entail, Defendants knew before the FY 2019  
28

guidance was given that the underlying deals that the guidance was based upon barely had a 50% chance of success.

## 2. March 4, 2019 Investor Day

87. On March 4, 2019, Forescout hosted an investor day in San Francisco, California. At this event, Defendant DeCesare made the following materially false and misleading statements:

So there'll be no questions today around go-to-market, so I'll try to give you a little bit of this, and then Brian can dig into the detail if you guys have questions towards the end. First is we've shared this with you is at the end of 2016, 14% of our sales organization was what we call tenured. That is a arbitrary definition for us. We have chosen that to be two years in your territory. We think it's about two years when a reps in the same territory, not just for the company but in their territories, that's when they start to really get kind of the pipeline, everything else that we need flowing. That rose to 35% at the end of 2017 and 50% at the end of 2018. I don't ever expect this to get to 100%.

***We're obviously hiring like crazy and not everybody works out.*** So there's going to be a good kind of critical mass that we get to, but we still think there is upside above and beyond the 50% for sure. The new step we want to share with you is where we are on pipeline. So this shows you what the total pipeline would be as a multiple of our internal bookings plan which is, no, we are not disclosing to you. But it gives you a sense of how big that multiple could be at the start of the year. So, that was 3.8% start of 2016; 3.4% at the end of 2017; and then \$4.2 million as we go into 2019.

***So, it's given us increased visibility which is you'd expect as reps are longer and the marketing team is getting going, we get kind of better visibility into pipeline.*** This is something that we certainly track on a very, very, very consistent basis. (emphasis added).

88. The statements identified in Paragraph 87 were materially false or misleading when made because DeCesare omitted to disclose that:

A. Any new hiring the Company was doing was necessitated by the departure of experienced sales representatives necessary to continue driving the Company's revenue growth. In fact, as per CW7, Forescout had already fired a significant number of employees in the Commercial division in February 2019. CW1 states that 25 to 30 BDRs/SDRs were terminated or left the Company in the first few months of 2019. This was a significant reduction given CW18's statement that the entire team of SDRs and BDRs at the end of 2019 consisted of only 60 individuals.

B. According to CW18, the Company began to eliminate or otherwise lose through voluntary departures "ramped up" NAMs, ultimately replacing 25 to 30 NAMs in 2019 with

1 inexperienced employees. Per CW19, each NAM had a quota of deals worth \$2.5 million per year.  
2 CW18 states that the elimination or voluntary departure of the “ramped up” NAMs due to poor sales  
3 prevented Forescout from closing deals and securing “tech wins.”

4 C. As a result, the Company’s “visibility” into the sales pipeline was  
5 diminishing, not increasing as DeCesare misleadingly stated, at the time this statement was made  
6 because Forescout had already started to eliminate or otherwise lose a significant number of sales  
7 representatives across multiple divisions.

8 D. DeCesare also failed to disclose that, as CW18 states, Force Management had  
9 already told senior executives at Forescout in 2018 that a majority of the Company’s deals in the  
10 sales pipeline were miscategorized as “committed” because the Company did not have “tech wins”  
11 or agreement from senior executives with authority to sign contracts or issue purchase orders on  
12 behalf of customers. CW18 states that Forescout considered initiating the CEP model’s steps in  
13 early 2019, but never implemented it and continued to include a significant number of deals with  
14 only a 50% chance of success into its forecasts.

15 E. DeCesare made the misleading statements identified in Paragraph 87 with  
16 actual knowledge or reckless disregard for the truth because:

17 i. DeCesare told investors that “sales ramping and productivity is  
18 always one of those areas that both [Harms] and I spend a lot of time on.”

19 ii. CW18 heard DeCesare state that, at least with respect to the  
20 Company’s own terminations, Forescout reduced its sales force in 2019 and additional cuts needed  
21 to be made in early 2020 because the Company had failed to grow revenues in 2019, demonstrating  
22 that DeCesare knew about the terminations and departures and why they occurred.

23 iii. According to CW18, DeCesare also knew that the Company had  
24 considered implementing the CEP model before this false statement was made but failed to  
25 implement it because DeCesare acted as the chief sales representative himself for large deals and  
26 knew that the steps of the CEP model had not been applied for deals that he pitched to clients  
27 himself. CW18 worked with Gumbel and Redman to initiate the CEP model in the beginning of  
28 2019 even though it was quickly abandoned. CW17 states that Redman and Gumbel both answered

DeCesare's pointed questions and shared information with DeCesare about the sales pipeline. DeCesare thus knew when he made this statement that misidentifying as "committed" deals with a 50% chance of success, as CW18 explained was normal practice, reduced "visibility" into the sales pipeline.

### 3. May 9, 2019 Press Release and Earnings Conference Call

89. On May 9, 2019, Forescout issued a press release that announced the Company's financial results for its first quarter ("Q1") that ended on March 31, 2019. In this press release, Forescout conditioned the market for a soft landing about the impending deterioration in its business due to the shift to the cloud, and the Company stated that revenues for the second quarter of 2019 would be within the range of \$75.3 million to \$78.3 million, now representing year-over-year growth of 14% at the midpoint.

90. On this partial disclosure or the materialization of the risks thereof, the price of Forescout's common stock declined by \$7.02, or over 16% from its previous day closing price of \$43.30 per share, to close at \$36.28 per share on May 10, 2019, on heavy trading volume.

91. To hasten Defendants' expectation of a decrease in Forescout's share price due to declining revenues resulting from the Company's illusory pipeline of deals and loss of its seasoned sales force in the second quarter of 2019, Defendants increased the full year guidance for 2019 and touted that the Company would still finish the fiscal year with revenues between \$365.3 and \$375.3 million, again representing year-over-year growth of 24% at the midpoint.

92. The full fiscal year 2019 increased revenue guidance was materially false or misleading because it lacked any objective basis and, in fact, was inconsistent with Forescout's actual business performance, which was known to Defendants at the time this guidance was disclosed for the same reasons identified in Paragraphs 81-86 and 88.

93. On May 9, 2019, Forescout also held an earnings conference call to announce Q1 results. At this conference call, analysts requested further information regarding the slipped deals and deals that Defendants said would close in the back half of the year. For example, Fatima Boolani questioned both Individual Defendants regarding the Company's sales capacity, and both DeCesare and Harms provided the following materially misleading response:

1 **Fatima Boolani, Analyst**

2 If I can just sneak in a follow-up. In terms of sales capacity, do you have comfort in  
3 the current levels of capacity that you have? Or should we anticipate there should be  
4 sort of a ramp in rep hiring, in capacity hiring as we progress through the year?

4 **Michael DeCesare, Chief Executive Officer and President**

5 *Yeah, no, consistent with the theme I just hit upon, look, we feel like we are*  
6 *tracking very well against our sales productivity, the investment levels that we have*  
7 *been making and plan to make through the rest of the year, follow the -- that path*  
8 *to profitability and investing at levels below where our top line is growing. Nothing*  
9 *has changed at those levels.* There was another facet I wanted to hit on. Perhaps as  
10 Mike's adding to it, I'll remember what it was.

8 **Christopher Harms, Chief Financial Officer**

9 *No. I'm good. He nailed it.* (emphasis added).

10 94. The statements identified in Paragraph 93 were material because analysts, as  
11 surrogates for the market, pointedly questioned Defendants about the sales force, and DeCesare and  
12 Harms assured them that the Company would meet its objectively false guidance because ***nothing***  
13 ***had changed*** about the sales capacity or productivity from its high of 50% at the end of 2018.

14 95. These statements were materially misleading when made because contrary to  
15 Defendant DeCesare's false statement, quite a lot "had change[d]" at this time with respect to the  
16 Company's sales capacity and productivity, including the following:

17 A. Contrary to DeCesare's statement, the sales capacity and productivity level  
18 of sales representatives had not only changed but ***declined*** because CW7 states that significant cuts  
19 were made in the Commercial division in February 2019, and CW1 states that an entire sales team  
20 was gutted in the spring of 2019 and 25 to 30 BDRs/SDRs were terminated or left the Company in  
21 the first few months of 2019. This was a significant reduction given CW18's statement that the  
22 entire team of SDRs and BDRs at the end of 2019 consisted of only 60 individuals.

23 B. CW16 and CW17 confirm that layoffs occurred in waves with five rounds of  
24 layoffs in 2019 and 2020, and the most significant cuts were made in 2019. On or about when this  
25 false statement was made, according to CW16 and CW17, Forescout planned to initiate another  
26 round of cuts in the summer of 2019 to become leaner in anticipation of a planned acquisition.  
27  
28

1 C. According to CW18, Forescout also terminated or otherwise lost 25 to 30  
2 “ramped up” NAMs in 2019, losing tens of millions of dollars in potential business.

3 96. DeCesare’s false statement that “nothing had changed” about the Company’s sales  
4 capacity and productivity, and Harm’s false affirmation of that statement were made with actual  
5 knowledge or extreme disregard for the truth. At this same earnings conference call held on May  
6 9, 2019, DeCesare himself told investors that “sales ramping and productivity is always one of those  
7 areas that both [Harms] and I spend a lot of time on,” so he knew about the waves of layoffs and  
8 cuts. CW18 also heard DeCesare state at a “sales kick off” event in the beginning of 2020 that  
9 Forescout reduced its sales force in 2019 and additional cuts needed to be made in early 2020  
10 because the Company had failed to grow revenues in 2019, demonstrating DeCesare’s knowledge  
11 of the massive turnover in 2019 and the reasons for the reduced level of productivity.

12 97. Other analysts also requested more specificity about the preannounced poor quarter  
13 and the raised full year guidance, and Defendants continued to mislead investors:

14 **Sterling Auty, Analyst**

15 Yeah. Thanks. Hi guys. So I’m sure a bunch of folks are going to pile on the deals  
16 moving later in the year. You mentioned just not materializing until later. Well, can  
17 you just give us a little bit more insight, choose one or two of them and just kind of  
18 walk through why. *Is it they need more signatures, the project timeline has shifted,  
19 there is other technology priorities? Why do you think they’re materializing later  
20 in the year?*

21 **Michael DeCesare, Chief Executive Officer and President**

22 *Sure. So first, understand that every one of those deals is still in pipeline.* It’s just  
23 our – we had an expectation that a couple of them would have been far enough along  
24 to be in guidance by this point, that’s the major issue for us, right?

25 We have high degree of confidence they close for the year. We had originally thought  
26 they would be more naturally suited for Q2 and they just slipped a little bit. So I said  
27 earlier kind of there is not really a single flavor to them in the sense that they span  
28 different industries and different figures for us and things like that. There is not really  
anything there that you could be thrilled into. I guess the one that I would share with  
you, Sterling, is I’ll just give you one example. *As you know we had one very large  
account – by the way, it’s also worth pointing out, in every one of those deals, we  
have the technology win already. We’ve already been awarded the business.*

*The question now is what I would call the business win, which is when we actually  
get the money and the commitment towards timing. So that’s why we have a fairly  
high degree of confidence that they will materialize in the back half of the year.*  
(emphasis added).

1           98.     The statements identified in Paragraph 97 were material because analysts, as  
2     surrogates for the market, specifically asked Defendants the reason why the deals had slipped,  
3     including whether authority from an economic buyer was missing, as CW18 states was usually the  
4     case with the illusory deals, or if the project timeline had shifted, as CW7 explains occurred with  
5     the UWM deal.

6           99.     The statements identified in Paragraph 97 were materially false or misleading when  
7     made because Defendants failed to disclose that:

8                 A.     Forescout could not, and did not, “have the technology win already,” was not  
9     “awarded the business” and “every one of those deals” was not still in the pipeline. This fact is  
10    confirmed by the rapid shift to cloud computing in 2018 and Forescout’s inability to adjust to the  
11    changing dynamics of the market that rendered its products obsolete. CW1, CW2, CW3, CW4,  
12    CW8, CW10 and CW17 also corroborate that Forescout’s declining revenue in 2019 was directly  
13    caused by pricing pressure and superior cloud delivered solutions offered by competitors.

14                B.     In 2018, Force Management told senior management at Forescout, including  
15    CW18, that implementation of the CEP model would result in a majority of deals miscategorized as  
16    “committed” because Forescout identified deals with only a 50% chance of success as “committed.”  
17    CW18 states that the Company’s decision to abandon the steps of the CEP model in early 2019,  
18    including securing “tech wins” from representatives of buyers with economic decision-making  
19    authority, resulted in Forescout’s failure to meet its sales targets for the next three to four quarters.

20                C.     Before this false statement was made, CW17 states that Forescout lost every  
21    single customer in CW17’s territory in southern Texas by April 2019. CW17 also states that  
22    Forescout lost the largest customer in Texas, AMD, with millions in potential business, by May  
23    2019.

24                D.     CW18 further states that an \$80 million potential deal with Booz Hamilton  
25    repeatedly slipped in 2019, and further estimates that 1 out of 5 deals in the global sales pipeline  
26    was miscategorized as “committed,” and 1 out of every 3 seven or eight figure deals was  
27    miscategorized as “committed.”  
28

1 E. CW7, CW9, CW10, CW11 and CW14 state that each one of them as well as  
 2 other sales representatives were pressured by senior executives such as Redman to identify  
 3 numerous seven figure deals as “committed” even though buyers had no interest. This pressure  
 4 campaign was so widespread that it extended to SecurityMatters, a new acquisition of the  
 5 Company’s at the end of 2018. According to CW13, the head of sales at SecurityMatters left that  
 6 organization because he was fed up with Defendants’ pressure campaign to fudge the numbers.  
 7 CW13 states that DeCesare applied the pressure on SecurityMatters. CW12 confirms that  
 8 “committed” deals “evaporated” in the middle of 2019. CW15, a manager on the Deal Desk at  
 9 Forescout from June 2016 to June 2020, states that “committed” deals listed in the forecast file  
 10 lingered for months or years with no prospects of closing. CW19 affirmatively states that  
 11 “committed” deals were included in the Company’s forecasts. CW20 confirms that despite the  
 12 length of Forescout’s sales cycle, deals were forecasted to close within weeks of a quarter, and  
 13 inevitably slipped into the next quarter as a result.

14 F. That this was Company policy is confirmed by CW19 who attended a  
 15 breakout session at a sales kickoff event in early 2020 where Hartley, the head of Americas for  
 16 Forescout, in the presence of CW19, instructed sales representatives to identify deals as  
 17 “committed” in the Salesforce platform based only on a single conversation with a senior executive  
 18 of the customer in the negotiations stage when there was no purchase order or any kind of actual  
 19 commitment. Indeed, CW9 was pressured to identify a \$1 million deal with only a 50% chance of  
 20 success as “committed” even though the buyer had no interest in the product before February 2019.

21 100. DeCesare’s knowledge or extreme recklessness in making this false statement is  
 22 evidenced by, at least, the following specific facts pertinent to this false statement:

23 A. The Company’s statements in its Annual Reports that the sales cycle was  
 24 between 9 and 24 months for new customers, and 3 to 12 months for existing customers,  
 25 demonstrating that Defendants had substantial lead time to understand and know that the Company  
 26 could not meet its sales targets or secure “tech wins” or that the deals would continue to “slip.”  
 27  
 28

1           B.       CW8 and CW18 state that DeCesare was a micromanager, and CW18 further  
2 states that DeCesare acted as the sale representative himself for the larger deals, meeting clients  
3 face-to-face and participating in conference calls.

4           C.       CW17, CW18 and CW20 state that DeCesare, Redman and other senior  
5 executives at Forescout used Clari, an add-on-revenue operation platform to track sales, monitor  
6 sales representatives, deals and forecasts. DeCesare and Redman used Clari's real time information  
7 to learn when the Company was short on its pipeline, identify deals that were at risk, predict  
8 outcomes early in the quarter, and spot churn risk of failure. This tool gave DeCesare information  
9 on the Company's forecasts and sales pipeline on a company-wide level with real time accuracy. It  
10 is thus implausible that DeCesare would not know about the pressure campaign, the illusory deals  
11 or that a majority of Forescout's deals identified as "committed" had only a 50% chance of success  
12 as CW18 explained.

13           D.       With information provided on Smartsheet by CW20 after gathering  
14 information from sales representatives, Martin, the Senior Vice President of Revenue Operations at  
15 Forescout, provided to DeCesare information about all deals over \$500,000 in weekly meetings as  
16 the quarter progressed. According to CW20, Martin's weekly updates to DeCesare included  
17 information about the status of negotiations, the steps remaining to close a deal, and the expected  
18 dollar amount for each deal.

19           E.       CW20 also attended "all hands" conference calls where CW20 heard  
20 DeCesare discuss revenue forecasts, current bookings, "tech wins," and the Company's inability to  
21 generate new business in 2019. CW16 similarly recounts that DeCesare held quarterly internal  
22 review calls where he discussed the status of "tech wins."

23           F.       Information provided to other senior executives was rolled up into updates  
24 provided to DeCesare. CW10 states that Redman reviewed sales pipeline reports on Salesforce, and  
25 Gumbel received automatic alerts about all deals over \$1 million. CW17 states that Redman and  
26 Gumbel then answered DeCesare's pointed questions and provided him with updates on the status  
27 of deals and the sales pipeline.  
28

1 G. According to CW7 and CW14, Redman pressured sales representatives to  
2 identify illusory deals as committed. According to CW13, DeCesare also instigated the pressure  
3 campaign on the head of sales at SecurityMatters.

4 H. On the August 7, 2019 earnings conference call, Harms told investors that he  
5 and DeCesare analyzed and “probed” the sales pipeline, spent time in the field asking about  
6 customers’ buying preferences, and both of those pieces of information were “baked into” the full  
7 year guidance.

8 101. Similarly, an analyst from Morgan Stanley questioned Defendant Harms regarding  
9 why the deals that had failed to close in the second quarter of 2019 could not potentially slip even  
10 further into fiscal year 2020:

11 **Melissa Franchi, Analyst**

12 Perfect. Thanks. And then just a follow-up for Criss on the large deal volatility. Just  
13 to clarify, were there any large deals that got pulled forward for Q2 into Q1? And  
14 then what’s your level of confidence in the deals that got flipped from Q2 into Q3 or  
15 Q4, what’s the level of confidence in those deals actually closing in the second half  
16 of the year? Is there risk that they could potentially slip into FY ‘20?

15 **Christopher Harms, Chief Financial Officer**

16 Yeah. So no major pull in a deal to get to Q1. So let’s address that directly. *As it*  
17 *relates to the second half of the year, kind of reiterating some of the points Mike*  
18 *hit upon. Those deals are ones where we’ve already got the tech win.* There are kind  
19 of each nuanced elements to why we still feel we’re going to close those deals in  
20 2019, we just weren’t prepared to put them into our guidance for Q2. *So inclusive in*  
21 *that, as we’re looking at that second half of the year, we feel like we’ve got plenty*  
22 *of pipeline for the coverage of what we need to do. Those deals are part of the*  
23 *portfolio that we look at. Those, we still have a very high degree as we’re assessing*  
24 *the deals that are taking shape of the cross-expansion and land -- and land is*  
25 *getting larger, we feel like there is plenty of pipeline to deliver upon the guidance*  
26 *we’ve given you for the full year.* (emphasis added).

22 102. Analysts, as surrogates for the market, again focused on asking about the slipped  
23 deals and whether Defendants had a basis for stating that there was no risk of further slippage into  
24 the next fiscal year, again demonstrating that Defendants’ false statements in response were  
25 material.

26 103. The statements identified in Paragraph 101 were materially false or misleading when  
27 made for the same reasons described in Paragraphs 99-100.

104. In addition, evidence that Harms made the misleading statements identified in Paragraph 101 with actual knowledge or reckless disregard for the truth is evidenced by the fact that Harms himself told investors during the Class Period that he and DeCesare analyzed and “probed” the sales pipeline, spent time in the field asking about customers’ buying preferences, and both of those pieces of information were “baked into” the full year guidance.

105. Another analyst from Bank of America pointedly asked Defendants about their decision to pre-announce poor results for the second quarter of 2019 while raising the full year revenue guidance for 2019 even higher than the previous estimate:

**Tal Liani, Analyst**

Hi, guys. I’m asking almost the same question that someone else asked, but I want to ask it differently. You missed 2Q guidance, but you are raising. You’re not keeping -- you’re not only -- you’re not keeping the guidance for the year you’re raising the guidance for the year. So that means you have some kind of confidence on the materialization of the contracts in the second half. Can you share with us what is -- what kind of arrangement you have for these contracts? Why are you increasing the guidance for the year? And what’s the risks that it doesn’t materialize? I just want to understand on what basis you’re increasing the guidance? Thanks.

**Michael DeCesare, Chief Executive Officer and President**

This is Mike. I’ll take that. I think, as we said, in the second quarter, this is a deal timing issue for us right? When we started off the year, we had more of substantial pipeline, we had a number of larger deals that we thought at that point were much more naturally going to close in the second quarter, and we’re now realizing that they need a little bit more time in the oven before they’re going to be done. *As I’ve mentioned, we have tech win in those accounts, meaning that they’ve chosen us. So it’s very, -- it’s not common for a customer to award a technology win to a vendor and then not buy their product for an extended period of time. So that gives us a high degree of confidence.*

We’ve also got 50% of our sales organization, as we mentioned, at the end of 2018 is ramped, which means they’ve been in their territory for more than a couple of years. *So many of these deals are into accounts that we’ve had the same account manager on the same accounts for a longer period of time, which gives us more visibility. So obviously, we would not raise 2019 if we did not have a very high degree of confidence. The building of pipeline, the maturation of our reps, the success we’re seeing in some of the international territories that were kind of later high risk for us from a cohort perspective are all giving us that confidence.* (emphasis added).

106. The statements identified in Paragraph 105 were materially false or misleading when made for the same reasons identified in Paragraphs 88, 95-96, and 99-100. These statements were further false and misleading because, according to CW6 and CW16, there were numerous hiring

1 freezes in 2019. DeCesare also failed to disclose to investors that major cuts were instituted in the  
 2 summer of 2019 in anticipation of finding an acquirer as CW16 explained.

3 107. DeCesare made these false statements with actual knowledge or reckless disregard  
 4 for the truth for the same reasons explained in Paragraphs 96 and 100.

5 108. Towards the end of the conference call, Defendant DeCesare went even further than  
 6 the above-mentioned misrepresentations, and told an analyst that the Company's sales pipeline was  
 7 so large and robust that the Company would easily meet its revenue guidance for the full year even  
 8 if the slipped deals from Q2 2019 never materialized:

9 **Alex Henderson, Analyst**

10 Thank you. I wanted to go back to the issue associated with the timing of the closure  
 11 of these deals into the back half. It's pretty easy to come to the conclusion that those  
 12 transactions will in fact close. But the other side of the coin, when these deals get  
 13 pushed out, it notoriously causes some diminishment of growth because it requires  
 14 sales capacity to push them to close and push them to the revenues. Have you  
 adequately thought through the impact that it has on your sales team's ability to do  
 the secondary deals or third deals as a result of their timeline here? Or alternatively,  
 is the deal size increasing enough to offset the impact of them spending more time  
 closing deals that were expected in the first half?

15 **Michael DeCesare, Chief Executive Officer and President**

16 So I would caution not to read too much into the handful of deals that's in the second  
 17 quarter. There are new customers in that, so certainly, those customers haven't  
 18 bought our products yet. But there is expand opportunities inside of that as well. *We*  
*have a very large pipeline. We've been working this for many years to build*  
*pipeline. So we are not dependent on those deals in the second half for us to be*  
*able to be successful.* We're just pointing out to you that we had maybe a sense that  
 19 they were going to close a little bit earlier, and now we've got a high degree of  
 20 confidence that they're going to close in the back half of the year. *So it doesn't have*  
*a material impact on kind of the overall productivity, we've got hundreds of sales*  
*reps. We feel good about those transactions in the second half of the year.*

21 **Alex Henderson, Analyst**

22 So that would be, you feel like you -- the deals are large enough that they would  
 23 absorb any capacity issues?

24 **Michael DeCesare, Chief Executive Officer and President**

25 *I feel our pipeline is large enough where we can still achieve our capacity*  
 26 *expectations without those deals closing in the second quarter.* (emphasis added).

27 109. The statements identified in Paragraph 108 were materially false or misleading when  
 28 made for the same reasons identified in Paragraphs 95-96 and Paragraphs 99-100.

**4. The August 7, 2019 Press Release and Earnings Conference Call and the Related Investor Conference**

110. On August 7, 2019, Forescout issued a press release that announced the Company's financial results for its second quarter that ended on June 30, 2019. In this press release, Forescout stated that revenues for the third quarter of 2019 would fall within the range of \$98.8 million and \$101.8 million. On the same day, the Company also held a conference call, in which Defendant DeCesare falsely claimed that Forescout's rate of closing deals "remain[s] very strong" and "very healthy," misleadingly blamed a poor performance in the second quarter to "pent-up demand," and said the Company was "very comfortable in our pipeline, rolling in both the third and the fourth quarter, but we think we've kind of measured those two things appropriately in our guidance." On the August 7, 2019 conference call, Defendant Harms misrepresented that "the pipeline is absolutely taking shape very effectively."

111. The third quarter 2019 revenue guidance was materially false or misleading because it lacked any objective basis and, in fact, was inconsistent with Forescout's actual business performance, which was known to Defendants at the time it was issued, as fully explained in Paragraphs 95-96 and Paragraphs 99-100.

112. The statements identified in Paragraph 110 were also materially false or misleading for the reasons identified in Paragraphs 95-96 and Paragraphs 99-100. Furthermore, these statements were also knowingly or recklessly false when made because, according to numerous CWs, significant cuts had already been made across divisions, including cuts in the healthcare and financial services division in August 2019 as CW8 confirms, and the entire SLED section of the Public Sector was on course to be eliminated in September 2019 per CW7 and CW19. In addition, before this statement was made, Jensen and Redman pressured CW7 and CW14 to report that the \$2 million deal with UWM would close before September 2019 even though UWM had told Jensen in a conference call with CW7 that it could not meet Forescout's chosen timeline to close the deal. According to CW7, this deal ultimately failed to materialize into a "tech win." It is inconceivable that Redman, or Gumbel did not inform DeCesare about the status of negotiations with UWM given the channels of communication to DeCesare through senior executives, updates prepared on

Smartsheet, Salesforce data or that DeCesare did not know himself based on his own use of Clari to monitor and track the sales pipeline with real time accuracy.

113. At the August 7, 2019 conference call, Defendant DeCesare also made the following materially false or misleading statements regarding the maturity of Forescout's sales force and the then-current strength of the Company's sales pipeline:

And just to remind you, that our definition of ramped is they've been with Forescout for more than two years and they're in the territory for more than two years. *That was 50% at the end of 2018 up from 35% a year prior, and although it's tracking very well for us, we're going to hold-off on disclosing what that percentage is until we finish 2019. With that said, you're kind of looking at like softer data points that are underneath that, we're quite happy with the level of pipeline we're building, the percentage of our sales reps that have been hired in the more recent cohorts like Asia-Pacific that did very well this quarter for us, there's a lot of indicators for us inside the business that are pointed in the right direction.* You can always do better here, and until you're at a place where every single sales rep is making their numbers and producing results. (emphasis added).

114. The statements identified in Paragraph 113 were materially false or misleading when made for the same reasons identified in Paragraphs 95-96 and 99-100.

115. On August 12, 2019, Defendant Harms participated in the KeyBanc Capital Markets Technology Leadership Forum. At this event, Defendant Harms stated that Forescout raised its full year guidance for revenues in the second quarter of 2019 because "we still had great visibility into the rest of the year and still the confidence we have about how deals were taking shape." Defendant Harms also claimed that Defendant DeCesare and he had "spent a lot of our July time frame really diving into the field to shape how Q3 was taking shape, how Q4 was taking shape, so that we could reflect that additional insight and give you an appropriate level of guidance, which the Q3 was still very solid, consistent with how I guided at the beginning of the year."

116. The statements identified in Paragraph 115 were materially false or misleading when made for the same reasons identified in Paragraphs 95-96 and Paragraphs 99-100.

## **5. The October 10, 2019 Press Release**

117. On October 10, 2019, Forescout issued a press release that announced preliminary financial results for the third quarter that ended on September 30, 2019. Based upon a purported preliminary review of financial information, Forescout announced that total revenue for the third quarter was expected to be in the range of \$90.6 million to \$91.6 million, compared to the

1 Company's prior guidance of \$98.8 million to \$101.8 million. In the press release, to address the  
 2 materialization that revenues would fall short of the earlier guidance, Defendant DeCesare blamed  
 3 the disappointing results on "extended approval cycles which pushed several deals out of the third  
 4 quarter" due to deteriorating macroeconomic conditions in the EMEA region. DeCesare was further  
 5 quoted in the press release as falsely stating that the fundamentals of the business had not changed  
 6 and the sales pipeline "continued to grow."

7 118. On this partial disclosure or the materialization of the risks thereof, the price of  
 8 Forescout's common stock declined by over 37% from its closing price of \$39.20 on the previous  
 9 day, to close at \$24.565 per share on October 10, 2019, on heavy trading volume.

10 119. Nevertheless, the statements identified in Paragraph 117 were materially false or  
 11 misleading when made because the fundamentals of Forescout had changed substantially and its  
 12 sales pipeline did not continue to grow but had already substantially deteriorated as fully explained  
 13 in Paragraphs 95-96 and Paragraphs 99-100.

#### 14 **6. The November 6, 2019 Press Release and Earnings Conference Call**

15 120. On November 6, 2019, Forescout issued a press release that announced financial  
 16 results for the third quarter of 2019. Total revenue was \$91.6 million, missing guidance by at least  
 17 \$7.2 million on the low end, or approximately 7% for the quarter. Defendant DeCesare again shifted  
 18 blame from the U.S. market to "extended sales cycles" in the EMEA region for the revenue miss.  
 19 The November 6, 2019 press release also stated that revenues would fall within the range of \$93.5  
 20 million to \$96.5 million for the fourth quarter of 2019.

21 121. The fourth quarter 2019 revenue guidance was materially false or misleading because  
 22 it lacked any objective basis and, in fact, was inconsistent with Forescout's actual business  
 23 performance, which was known to Defendants, at the time it was issued for the same reasons  
 24 identified in Paragraphs 95-96 and Paragraphs 99-100.

25 122. The statements identified in Paragraph 120 were also materially false or misleading  
 26 when made because by this time:

27 A. According to CW6 and CW16, there were numerous hiring freezes in 2019,  
 28 and CW6 states that another hiring freeze was instituted in September 2019 to increase cashflow

1 and blunt the impact of poor financial results. CW5, the Interim Director of International  
2 Accounting and Business Operations at Forescout from April 2018 to July 2019, and CW8, who  
3 both left the Company before these false statements were made confirm that the cuts to the sales  
4 force were widespread across divisions and departments and encompassed secondary roles in  
5 marketing and accounting. CW7 further confirms that the entire SLED section of the public sector  
6 division was eliminated in September 2019.

7 B. As CW18 confirms, by this point, Forescout had nearly eliminated the entire  
8 team of 60 SDRs and BDRs at the Company, fired or otherwise lost almost 25 to 30 NAMs with  
9 two or more years of experience, was on course to replace nearly 100 “ramped up” employees with  
10 inexperienced representatives who could not generate deals and revenue, all of which caused a loss  
11 of tens of millions in potential business. As a result, given that so many CWs confirm that the  
12 reduction of the sales force was a process that began as early as February 2019, by November 2019,  
13 Forescout was very close to wiping out all the gains in sales productivity from 2018 that Defendants  
14 misleadingly touted throughout 2019, and which declined from 50% to 38% no later than December  
15 31, 2019.

16 C. Numerous NAMs, including CW7, CW10, CW11 and CW14 had already  
17 been forced to report illusory deals with no commitment as “committed” in the Company’s sales  
18 pipeline platforms. The accounts of CW7, CW13 and CW14 show that the pressure was instigated  
19 by *both* DeCesare and Redman. In fact, CW19 confirms that he heard Hartley, the head of Americas  
20 for Forescout, state that deals should be listed as “committed” in the Salesforce platform based only  
21 on a single conversation with a senior executive during the negotiations stage although there was no  
22 purchase order or any kind of actual commitment.

23 123. The statements identified in Paragraph 120 were also knowingly or recklessly false  
24 when made for, at least, the following additional reasons:

25 A. Within two months of these false statements, CW18 heard DeCesare state at  
26 a sales kickoff event that Forescout reduced its sales force in 2019 and additional cuts needed to be  
27 made in early 2020 because the Company had failed to grow revenues in 2019, demonstrating his  
28 knowledge about the massive turnover in 2019 as well as the reasons for that turnover.

1 B. On the August 7, 2019 earnings conference call, DeCesare refused to disclose  
2 the percentage of productive sales representatives who worked at the Company for more than 2  
3 years “until we finish 2019,” demonstrating that, at least, by November 2019, he was aware of the  
4 massive decline in sales productivity that did not occur overnight.

5 C. DeCesare acted as the chief sales representative himself for large deals, was  
6 informed by Martin about the status of all deals over \$500,000, viewed data on Clari to learn when  
7 the Company was short on its pipeline, identify deals that were at risk, and there were many at risk  
8 by this point, predict outcomes early in the quarter, and spot churn the risk of failure before time ran  
9 out. DeCesare also received real-time information about deals through various other channels of  
10 communications as explained in Paragraph 100.

11 **7. The February 6, 2020 Form 8-K**

12 124. On February 6, 2020, the Company issued a press release, which was also attached  
13 as Exhibit 99.1 to a Form 8-K filed that same day with the SEC, announcing its results for Q4 2019.  
14 The first line of the press release reported “*Fourth Quarter Revenue of \$91.3 million, compared to*  
15 *\$84.7 million in fourth quarter of 2018. Full Year Revenue of \$336.8 million, compared to \$297.7*  
16 *million in the full year 2019.*” (emphasis in original). Elsewhere, the press release under a title  
17 “**Fourth Quarter 2019 Financial Highlights**” stated that: “[t]otal revenue was \$91.3 million, an  
18 increase of 8% over the fourth quarter of 2019” and that “[l]icense revenue was \$48.4 million, an  
19 increase of 2% over the fourth quarter of 2018.”

20 125. These statements made in the February 6, 2020, press release were materially false  
21 or misleading because they failed to disclose that Q4 2019 revenues, particularly license revenues,  
22 had been distorted and inflated through the frontloading of sales to Merlin, one of Forescout’s largest  
23 resellers. This front loading of sales resulted in both the total amount of revenues as well as license  
24 revenues being overstated, as well as the reported year-over-year rate of growth in those revenues  
25 from Q4 2018.

26 126. The front loading of sales to Merlin and related distortion of the Company’s reported  
27 revenue growth is evidenced by the following facts:  
28

1           A.     A whistleblower identifying Merlin as a business partner through which  
 2     Forescout frontloaded sales in Q4 2019, according to a June 5, 2020, Subpoena Duces Tecum and  
 3     Ad Testificandum Directed to Merlin in the Delaware Litigation defines “Whistleblower Email” as  
 4     “the email sent from forescout.whistleblower@protonmail.com to Advent on May 5, 2020, alleging  
 5     that Forescout involved Merlin in a channel stuffing scheme for Q4 2019.”

6           B.     CW15 asserted that Merlin agreed to resell Forescout’s products for high  
 7     value deals even though Merlin could not close the deals with the customers before the end of each  
 8     quarter.

9           C.     Forescout suffering an otherwise unexplained implosion of *more than 60%*  
 10    in reported licensing revenue from \$37,680,000 in Q1 2019 to \$14,799,000 in Q1 2020. *See* Q1  
 11    2020 Form 10-Q at 7. This was followed by Q2 2020 in which total licensing revenue showed a  
 12    less than 2% decline in reported total licensing revenue from \$31,865,000 reported in Q2 2019 to  
 13    \$31,334,000 reported in Q2 2020, notwithstanding the economy suffering the same level of  
 14    disruption from COVID-19 in Q2 2020 as in Q1 2020 (*see* Q2 2020 Form 10-Q at 14) and  
 15    Forescout’s peers not having suffered a similar decline in revenues. *See* Answer and Counterclaim  
 16    ¶¶2-3 (characterizing Forescout’s Q1 2020 results as “disastrous” and comparing them to  
 17    Forescout’s peers which “were almost uniformly reporting significant first quarter earnings and  
 18    revenue gains”). The Company’s Q1 2020 results are particularly telling because they came after  
 19    the signing of the Original Merger Agreement giving Advent contractual right to monitor  
 20    Forescout’s internal reporting and operations allowing Advent to review the integrity of the revenues  
 21    being reported by the Company and prevent similar frontloading of revenues in Q1 2020.

22           D.     Forescout also suffered an otherwise unexplained deviation in total revenue  
 23    from the \$62 million Illustrative Guidance for Q1 2020 formulated in late January 2020 as disclosed  
 24    in the Proxy Statement, representing a 24% decline from reported Q1 2019 revenue. *See* Proxy  
 25    Statement at 61. The Company’s actual results for Q1 2020 were \$57.2 million, representing a 7.7%  
 26    negative deviation in a relatively short period of time and that deviation would have been greater  
 27    than 15% had Forescout not acted to sell \$4.787 million in hardware *at a loss*. *See* Q1 2020 Form  
 28    10-Q at 14, 26. The Company, in response to Advent’s allegation that these Q1 2020 sales were

1 “highly unnatural (and detrimental) actions ... to pull additional bookings into the quarter” “in a  
2 failed attempt to maintain at least some of its Q1 revenues, albeit at the expense of long-term value.”  
3 *See Answer and Counterclaim ¶¶32, 41.*

4 E. Forescout’s independent auditor in the 2019 Form 10-K, filed with the SEC  
5 on February 28, 2020, openly questioned the Company’s revenue recognition policies by including  
6 the following statement on “Critical Audit Matters” ***which had not been made with respect to***  
7 ***Forescout’s prior year financial statement*** contained in the 2018 Form 10-K filed with the SEC on  
8 March 1, 2019, by stating that:

9 Auditing the Company’s revenue recognition was challenging, specifically related to  
10 the identification and determination of the distinct performance obligations and the  
11 timing of revenue recognition. For example, certain arrangements required judgment  
to determine the distinct performance obligations and the appropriate timing of  
revenue recognition.

12 F. The Company acknowledging in the Delaware Litigation that it routinely  
13 provided end of quarter discounts in order to promote sales. *See Delaware Complaint ¶94* (“[a]ny  
14 discounts Forescout gave were consistent with the way Forescout has operated in the past.”).

15 127. Defendants’ knowledge or extreme recklessness in making the materially false or  
16 misleading statements of February 6, 2020 is evidenced by at least the following facts:

17 A. Forescout refused to provide Advent with a satisfactory explanation for the  
18 sudden dramatic implosion in the Company’s revenue. *See Answer and Counterclaim ¶33.*

19 B. DeCesare was a micromanager who paid close attention to the Company’s  
20 operations and sales through the Company’s comprehensive system for internal reporting. *See ¶¶44-*  
21 *45, supra.*

22 C. The amount of licensing revenue earned by the Company is a material fact  
23 which had been separately reported upon by the Company (except in the Q3 2019 Form 10-Q) and  
24 discussed in the Management Discussion and Analysis section of the Company’s SEC filings  
25 required by Item 303 of Regulation S-K, including the 2019 Form 10-K which was signed by both  
26 Defendants DeCesare and Harms.

27 D. Forescout’s Q4 2019 results had a direct impact on the price which Advent  
28 was negotiating to pay for the Company and were sufficiently material to potential acquirers that

one such potential bidder refused to make an offer until it saw the Company's Q4 2019 results and their effect on its stock price. *See* Proxy Statement at 43-44. That price, in turn, had a material and substantial impact on the Forescout RSUs and stock owned by DeCesare and Harms. *See* ¶¶24-25, 61 *supra*.

#### 8. The 2019 Form 10-K Filed on February 28, 2020

128. On February 28, 2020, Forescout filed its 2019 Form 10-K which represented, under a title "**Our Growth Strategy**[" that one of the primary drivers of the Company's growth was to:

*Expand our presence in the market by leveraging our ecosystem of channel partners.* We will continue to broaden and invest in our value added and system integrator channel partner relationships to increase distribution of our products. We are focused on educating existing partners and investing in sales enablement to expand our market reach through our channel partner network, particularly into mid-market enterprises.

129. The 2019 Form 10-K also purported to disclose certain "risks and uncertainties" relating to Forescout's condition and prospect, including that "[t]he announcement and pendency of our agreement to be acquired by Advent could adversely affect our business."

130. These statements made in the 2019 Form 10-K were materially false or misleading because, by that very time, two multinational professional services companies that were substantial business partners of Forescout had *terminated* their relationships with the Company and a third major partner had said that it could no longer be a go-to market partner for Forescout. *See* Delaware Complaint ¶93. The disruption in those relationships "caused tens of millions of dollars of Forescout's pipeline to be deregistered." *Id.*

131. The terminations and downgrading of these business relationships, according to Forescout, were the direct outgrowth of the Company entering into the Original Merger Agreement. *Id.* In addition, "[o]ther customers ... simply expressed their unwillingness to work with a private equity buyer post-closing." *Id.* These issues manifested themselves through Forescout's sales pipeline and sales pipeline predictor tool during the last week of February 2020 and before the 2019 Form 10-K was filed with the SEC. *See* Counterclaim Answer ¶26.

132. Defendants' knowledge or reckless disregard of these facts is evidenced by the materiality of those business relationships to Forescout, the Company monitoring those business

relationships through its sales pipeline predictor tool, Defendant Harms being actively involved in the Company's financial forecasting, and the ongoing communications between, DeCesare and Harms, on the one hand, and senior executives of Advent, on the other hand, regarding the Planned Acquisition and the Company's ongoing business operations. *See* Answer and Counterclaim ¶26 ("A few short weeks after the parties signed the Merger Agreement, Forescout's business cratered. Initially, during the last week of February 2020, [redacted] indicated that Forescout was on track to [redacted.]"); Counterclaim Answer ¶26 ("Forescout ... admits that Advent purports to characterize indications derived from Forescout's sales pipeline predictor tool during the last week of February 2020 regarding booking targets").

#### 9. The Proxy Statement Filed on March 24, 2020

133. On March 24, 2020, Forescout issued and filed with the SEC its Proxy Statement in connection with the Planned Acquisition with respect to a special meeting of the Company's shareholders to be held on April 23, 2020 to consider and vote on a proposal to approve the Planned Acquisition. The Proxy Statement identified the following risk factor with respect to the Planned Acquisition: "the effect of the announcement of pendency of the merger on our business relationships, customers, operating results and business generally...."

134. That risk factor discussion contained in the Proxy Statement was materially false or misleading because, by that time, the Company had already actually suffered adverse consequences from announcing the Planned Acquisition since, according to Forescout's allegations later made in the Delaware Litigation, the announcement of the Planned Acquisition caused two multinational professional services companies that were substantial business partners of Forescout to *terminate* their relationships with the Company and a third major partner had said that it could no longer be a go-to market partner for Forescout. *See* Delaware Complaint ¶93. The disruption in those relationships "caused tens of millions of dollars of Forescout's pipeline to be deregistered." *Id.*

135. The Proxy Statement also incorporated by reference, *inter alia*, the 2019 Form 10-K and the Form 8-K filed with the SEC on February 6, 2020. *See* Proxy Statement at 121. As a result, the Proxy Statement was materially false or misleading for the same reasons as the statements made in those SEC filings. *See* ¶¶125-27, 130-32, *supra*.

136. The Proxy Statement also stated that the Company had prepared Illustrative Guidance in late January 2020 of \$62 million and \$355 million in revenue for the first quarter and all of 2020 and had prepared various financial models forecasting Forescout’s future results, all of which showed steady increases in revenues from 2020 through FY 2029. *See* Proxy Statement at 61, 64-65. Defendants stated that Illustrative Guidance as well as the other financial forecasts contained in the Proxy Statement were forward looking statements which management believed were reasonable at the time they were made subject to the following generalized risk factors: “(1) general economic conditions; (2) the accuracy of certain accounting assumptions; (3) changes in actual or projected cash flows; (4) competitive pressures; and (5) changes in tax laws.” Proxy Statement at 62. In addition, the Proxy Statement generically stated that: “[a]dditional factors that may impact Forescout and its business can be found in the various risk factors included in Forescout’s periodic filings with the SEC. All of these factors are difficult to predict, and many of them are outside of Forescout’s control.” *Id.*

137. The five current risk factors disclosed in connection with presenting the Illustrative Guidance and the other forecasts contained in the Proxy Statement were not meaningful because they related to either generic economic events or risks the Company previously encountered rather than current risks affecting the viability and reasonableness of the financial forecasts contained in the Proxy Statement. Indeed, the risk factors themselves were materially false or misleading because, by the time the Proxy Statement was filed with the SEC on March 24, 2020, Defendants knew that the Illustrative Guidance as it related to Q1 2020, as well as the periods going forward, could not possibly be achieved as on that very date Forescout’s management reported sharply worsening financial conditions to Advent (Answer and Counterclaim ¶¶28-29) and Defendants knew of the *already existing facts* material impairment of the Company’s business through the loss of key customer relationships. *See* ¶¶77.C, 130, 134, *supra* (citing Delaware Complaint ¶93).

138. Additionally, Defendants knew that the projections provided to potential acquirers, including the Illustrative Guidance, were generated from a defective system for reporting sales as committed when deals categorized as “committed” by the Company were not, in fact, committed to by customers. *See* ¶¶49-52, *supra*. Moreover, according to CW 19, at a January 2020 “sales kickoff”

1 event, Forescout's Vice President of the Americas instructed sales representatives to list deals as  
 2 "committed" into the Salesforce platform on the basis of a single conversation with a potential  
 3 customer's C-suite executives or employees in the procurement group.

4 139. Indeed, on July 20, 2020, the Company, in the Tender Offer Recommendation,  
 5 reported substantially more realistic revenue forecasts, prepared on July 13, 2020, reflecting  
 6 estimated revenue of \$321 million for 2020, declining to \$317 million for FY 2021, and then starting  
 7 to increase once again in FY 2022 to \$358 million and in FY 2023 to \$410 million compared to a  
 8 previous plan utilized by Morgan Stanley projecting \$359 million in revenue, increasing steadily by  
 9 approximately 15% per year to \$414 million, \$461 million and \$549 million for FY 2021, FY 2022  
 10 and FY 2023.

11 140. The Proxy Statement also made the following disclosure with respect to Advent's  
 12 expected financing of the Planned Acquisition:

13 Pursuant to a debt commitment letter, as amended and restated (which we refer to as  
 14 the "debt commitment letter"), the financial institutions party thereto have severally  
 15 and not jointly committed (1) to provide to Merger Sub on the closing date of the  
 16 merger senior secured term loans in an aggregate principal amount of \$400,000,000;  
 17 and (2) to make available to Merger Sub (or, after the closing date of the merger, to  
 the surviving corporation) senior secured revolving commitments in an aggregate  
 principal amount of \$40,000,000 (a portion of which may be made available to  
 Merger Sub on the closing date of the merger), in each case, on the terms and subject  
 to the conditions set forth in the debt commitment letter.

18 141. This statement concerning the debt commitment letter was materially misleading  
 19 because Advent's ability to obtain the financing was dependent upon the projections of Forescout's  
 20 future operations, the prospects of which had been rapidly deteriorating in a manner which made  
 21 achieving the prior forecasts unrealistic. Thus, Advent alleged in the Delaware Litigation that "on  
 22 March 20, when Forescout gave Buyers a preview to its 1Q2020 results, management reported to  
 23 Buyers that Forescout expected to [redacted.] During a subsequent call on the same day, Forescout's  
 24 Chief Financial Officer, Christopher Harms admitted that he understood Parent's desire for the  
 25 updated forecasts and that he would have been conducting similar *liquidity planning* in light of  
 26 Forescout's recent performance and trajectory if the merger were not planned." Answer and  
 27 Counterclaim ¶27 (emphasis added).

1           **10.     The April 23, 2020 Extraordinary Shareholders' Meeting**

2           142.     On April 23, 2020, at the extraordinary shareholders meeting, Daniel J. Milliken, the  
3 Company's general counsel, stated that: "We currently expect the merger to be consummated on or  
4 about May 18, 2020, after buyer's remarketing period ends." The remarketing period referred to  
5 Advent obtaining the necessary debt necessary to complete the funding of the Planned Acquisition.

6           143.     The April 23, 2020, statement was materially false or misleading because it omitted  
7 material facts that conflict with what a reasonable investor would take from the statement itself.  
8 Defendants failed to disclose that Advent had expressed reservations whether the conditions to the  
9 closing of the Original Merger Agreement would be met. Forescout admitted this fact in July 20,  
10 2020 the Tender Offer Recommendation on which stated that:

11                 On April 20, 2020, Forescout received a letter from Parent in which Parent expressed  
12 concern about deteriorations in the performance and prospects of Forescout's  
13 business. The letter also stated that Parent was reviewing Forescout's business,  
operations, future prospects and financial condition in order to assess whether the  
conditions to closing provided in the ... Merger Agreement would be met.

14           144.     Defendants knew of this letter because:

15                 A.     it was sent to Forescout and, as explained in the filings in the Delaware  
16 Litigation, DeCesare and Harms communicated with Advent on behalf of Forescout. *See* Answer  
17 and Counterclaim ¶38; Counterclaim Answer ¶38 (admitting that DeCesare explained to Parent on  
18 April 20, 2020, that Forescout continued to operate under its Board-approved plan);

19                 B.     DeCesare and Harms were intimately involved in the ongoing discussion with  
20 Advent following the signing of the Original Merger Agreement (*see* Delaware Complaint ¶¶1, 75,  
21 78, 89; Answer and Counterclaim ¶¶27, 35, 38, 63); and,

22                 C.     after April 20, 2020, the Strategic Committee began considering the possible  
23 effect of Advent refusing to proceed with the Planned Acquisition as negotiated in the Original  
24 Merger Agreement. *See* Tender Offer Recommendation at 32.

25           145.     The statements made at the April 23, 2020, extraordinary shareholders meeting were  
26 transcribed by Thomson Reuters and are available at <https://east.virtualshareholdermeeting.com/vsm/web?pvskey=FSCT2020>. The transcription and recording demonstrate that the statements  
27  
28

Defendants made on April 23, 2020, were not identified as forward-looking statements and that no meaningful risk factors were identified at the time they were made.

### **11. The April 23, 2020 Press Release**

146. On April 23, 2020, Forescout also issued a press release which was attached as an exhibit to a Form 8-K filed the next day, stating in relevant part that:

Forescout continues to expect the transaction to close in the second calendar quarter of 2020 following the completion of a customary debt “marketing period” by Advent. Upon completion of the transaction, Forescout common stock will no longer be listed on any public market.

147. Forescout’s April 23, 2020, press release was materially false and misleading, and Defendants knew Forescout’s April 23, 2020, press release was materially false and misleading for the same reasons the statement made at Forescout’s April 23, 2020, shareholders’ meeting was materially false and misleading, and for the same reasons they knew that statement was materially false and misleading.

148. Despite Advent having already expressed concerns about closing the Planned Acquisition and Forescout working on contingency plans, Forescout’s press release contained only generic warnings about risks and uncertainties regarding the Planned Acquisition, including “the risk that the conditions to the closing of the transaction are not satisfied; potential litigation relating to the transaction; uncertainties as to the timing of the consummation of the transaction and the ability of each party to consummate the transaction; ... and the risks described in the filings that Forescout makes with the Securities and Exchange Commission from time to time, including the risks described under the headings “Risk Factors” and “Management Discussion and Analysis of Financial Condition and Results of Operations” in Forescout’s Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on February 28, 2020, and which should be read in conjunction with Forescout’s financial results and forward-looking statements....”

### **12. The Form 10-K/A Filed April 29, 2020**

149. On April 29, 2020, the Company filed the Form 10K/A with the SEC which, incorporated the 2019 Form 10-K by reference and also stating that:

Forescout expected to hold its 2020 Annual Meeting of Stockholders (“2020 Annual Meeting”) in late May 2020; however, Forescout expects the proposed acquisition of Forescout by entities affiliated with Advent ... to close in the second quarter of 2020

1 and, as such, our Board of Directors has decided not to hold the 2020 Annual Meeting  
2 at this time.

3 150. The Form 10K/A was materially false or misleading because, by that very time,  
4 Defendants knew that Advent had expressed significant concerns about closing the transaction. *See*  
5 ¶77, *supra*. In addition, the Form 10K/A was materially false or misleading for all the same reasons  
6 as the 2019 Form 10-K.

7 151. Defendants knew the Form 10K/A was materially false and misleading for the same  
8 reasons they knew Forescout's April 23, 2020, statements were materially false and misleading.

9 152. The false and misleading statements Defendants made on April 29, 2020, were not  
10 protected statements of opinion protected by meaningful cautionary language because like  
11 Forescout's April 23, 2020, statements they were made at a time when Defendants knew that Advent  
12 had expressed reservations about its ability to close on the Original Merger Agreement.

13 **13. The May 11, 2020 Press Release**

14 153. Despite Advent having already expressed concerns about closing the Planned  
15 Acquisition and Forescout working on contingency plans, Forescout's press release contained only  
16 generic warnings about risks and uncertainties regarding the Planned Acquisition, including "the  
17 risk that the conditions to the closing of the transaction are not satisfied; potential litigation relating  
18 to the transaction; uncertainties as to the timing of the consummation of the transaction and the  
19 ability of each party to consummate the transaction; ... and the risks described in the filings that  
20 Forescout makes with the Securities and Exchange Commission from time to time, including the  
21 risks described under the headings "Risk Factors" and "Management Discussion and Analysis of  
22 Financial Condition and Results of Operations" in Forescout's Annual Report on Form 10-K, which  
23 was filed with the Securities and Exchange Commission on February 28, 2020, and which should  
24 be read in conjunction with Forescout's financial results and forward-looking statements...."

25 154. On May 11, 2020, Forescout disclosed that its Q1 2020 results were \$57 million, or  
26 \$5 million less than the Illustrative Guidance disclosed just eight days before the end of that quarter.  
27 Forescout also disclosed that during Q1 2020 it had deeply discounted two large hardware deals  
28 resulting in a negative gross margin of 8% for hardware sales for the fiscal quarter. Forescout,

1 however, blunted a further decline in its stock price by quoting DeCesare in its May 11, 2020, press  
2 release as stating that “we look forward to completing our pending transaction with Advent.”

3 155. The statement made in the May 11, 2020 press release was materially false or  
4 misleading because it failed to disclose that on May 8, 2020, “**Advent Signal[ed] its Intention to**  
5 **Renege on the Merger Agreement.**” Delaware Complaint at p. 38. Specifically, “[o]n May 8,  
6 2020, a representative of Advent contacted Forescout’s Chief Executive Officer and said that  
7 Advent was considering not closing. Advent’s representative said that they could not ‘*make the*  
8 *numbers work[.]*’” (emphasis added). Delaware Complaint ¶¶8. *See also* Counterclaim Answer ¶¶63  
9 (Forescout “admits that on May 8, 2020, a representative of Advent contacted Forescout’s CEO and  
10 told him, among other things, that Advent was considering not closing the Merger.”). The May 8,  
11 2020, conversations were not the first time Advent expressed serious concerns that the proposed  
12 transaction could not close. *See* Answer and Counterclaim ¶¶63 (on May 8, 2020, “Parent also  
13 *reiterated* its *bona fide* belief that consummation of the Transaction would render Forescout  
14 insolvent, effectively preventing Parent from closing the financing.”) (emphasis added).

15 156. Advent’s action did not surprise Defendants, because as the Tender Offer  
16 Recommendation-9 later filed with the SEC on July 20, 2020 disclosed, from April 23, 2020 through  
17 the first half of May, Advent and Forescout had “discussions regarding Forescout’s business and  
18 financial condition, as well as the information requests in Parent’s letter of April 20, 2020. In  
19 addition, the *Strategic Committee and the Forescout Board met regularly to discuss*, among other  
20 things, (1) Forescout’s business; (2) the information requests from Parent; and (3) *Forescout’s*  
21 *options should Parent not proceed with consummating the acquisition of Forescout pursuant to*  
22 *the terms of the Original Merger Agreement.*” (emphasis added).

23 157. The Termination Letter itself also references earlier discussions by stating “[a]s we  
24 *have discussed*, while Parent continues to satisfy its obligations under the Merger Agreement, we  
25 have been actively reviewing the Company’s business, operations, future prospects, and financial  
26 condition, in keeping with Parent’s obligations to its investors.” (emphasis added).

**LEAD PLAINTIFFS' CLASS ACTION ALLEGATIONS**

158. Lead Plaintiffs bring this action as a class action pursuant to Federal Rule of Civil Procedure 23(b)(3) on behalf of all persons or entities that purchased or otherwise acquired Forescout common stock during the period from February 7, 2019 through May 15, 2020 (the "Class Period"), both dates inclusive. Excluded from the Class are Defendants, officers and directors of Forescout, any entity in which the Defendants have or had a controlling interest; and affiliates, family members, legal representatives, heirs, successors or assigns of any of the above.

159. The Class is so numerous that joinder of all members is impracticable. Throughout the Class Period, Forescout common stock was actively traded on the NASDAQ Global Select Market under the ticker symbol "FSCT." Lead Plaintiffs believe that there are thousands of members in the proposed Class, with the overwhelming majority of Class members having held shares in a street name. Potential Class members may be identified from records maintained by Forescout, its transfer agents, and brokers and banks that hold shares beneficially for investors in a street name and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

160. Lead Plaintiffs' claims are typical of the claims of those of the Class, as all Class members were similarly affected by Defendants' wrongful conduct in violation of federal law complained of herein.

161. Lead Plaintiffs will fairly and adequately protect the interests of the members of the Class and have retained counsel competent and experienced in class action and securities litigation.

162. Common questions of law and fact exist as to all Class members and predominate over any questions solely affecting individual Class members. Among the questions of law and fact common to the Class are:

A. whether Forescout and the Individual Defendants made false statements or failed to disclose material information that rendered their Class Period statements as misleading;

B. whether the Individual Defendants are control persons of Forescout for purposes of Section 20(a) of the Exchange Act;

1 C. whether Forescout and the Individual Defendants made the  
2 misrepresentations or omissions with scienter;

3 D. whether the federal securities laws were violated by Defendants' acts as  
4 alleged herein;

5 E. whether the prices of Forescout's securities during the Class Period were  
6 artificially inflated because of the Defendants' misconduct complained of herein; and,

7 F. whether the Class has sustained damages with respect to its Exchange Act  
8 claims and, if so, what is the proper measure of damages.

9 163. A class action is superior to all other available methods for the fair and efficient  
10 adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the  
11 damages suffered by individual Class members may be relatively small, the expense and burden of  
12 individual litigation make it impossible for Class members to individually redress the wrongs done  
13 to them. There will be no difficulty in the management of this action as a class action.

14 164. With respect to the Exchange Act claims, Lead Plaintiffs will rely, in part, upon the  
15 presumption of reliance established by the fraud-on-the-market doctrine in that:

16 A. Defendants made public misrepresentations or failed to disclose material  
17 facts during the Class Period;

18 B. the omissions and misrepresentations were material;

19 C. Forescout's common stock traded in an efficient market;

20 D. the Company's common stock was liquid and traded with moderate to heavy  
21 volume during the Class Period;

22 E. the Company traded on the NASDAQ Global Select Market, and was covered  
23 by multiple analysts;

24 F. the misrepresentations and omissions alleged would tend to induce a  
25 reasonable investor to misjudge the value of the Company's common stock; and,

26 G. Lead Plaintiffs and other Class members purchased or otherwise acquired  
27 Forescout common stock between the time that the Defendants failed to disclose or misrepresented  
28

1 material facts, and the time that the true facts were disclosed or materialized, without knowledge of  
2 the omitted or misrepresented facts.

3 165. Based upon the foregoing, Lead Plaintiffs and other Class members are entitled to a  
4 presumption of reliance upon the integrity of the market if they did not actually rely on Defendants'  
5 materially false or misleading statements.

6 166. Alternatively, Lead Plaintiffs and the Class members are entitled to the presumption  
7 of reliance established by the Supreme Court in *Affiliated Ute Citizens of the State of Utah v. United*  
8 *States*, 406 U.S. 128 (1972), as Defendants omitted material information in violation of a duty to  
9 disclose such information, as detailed above.

### 10 **COUNT I:**

#### 11 **(Against Defendants Forescout, DeCesare and Harms for** 12 **Violations of Section 10(b) and Rule 10b-5)**

13 167. Lead Plaintiffs repeat and reallege the allegations contained in Paragraphs 1 to 166  
14 above as if fully set forth herein.

15 168. This Count is asserted against Forescout and each of the Individual Defendants for  
16 violations of Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 promulgated  
17 thereunder by the SEC.

18 169. During the Class Period, Defendants engaged in a plan, scheme, conspiracy and  
19 course of conduct, pursuant to which they knowingly or recklessly engaged in acts, transactions,  
20 practices and courses of business which operated as a fraud and deceit upon the Lead Plaintiffs and  
21 the other members of the Class; made various untrue statements of material facts and omitted to  
22 state material facts necessary in order to make the statements made, in light of the circumstances  
23 under which they were made, not misleading; and employed devices, schemes and artifices to  
24 defraud in connection with the purchase and sale of securities. Such scheme was intended to, and,  
25 throughout the Class Period, did: (i) deceive the investing public, including the Lead Plaintiffs and  
26 other Class members, as alleged herein; (ii) artificially inflate and maintain the market price of  
27 Forescout common stock; and (iii) cause Lead Plaintiffs and other members of the Class to purchase  
28 or otherwise acquire Forescout common stock at artificially inflated prices.

1           170. Specifically, Forescout and the Individual Defendants made material  
2 misrepresentations and omitted to disclose material information that rendered their statements  
3 misleading as particularized in Paragraphs 80 through 157.

4           171. The Individual Defendants had actual knowledge of the materially false and  
5 misleading statements and material omissions alleged herein and intended thereby to deceive the  
6 Lead Plaintiffs and the other members of the Class, or, in the alternative, acted with reckless  
7 disregard for the truth in that they failed or refused to ascertain and disclose such facts as would  
8 reveal the materially false and misleading nature of the statements made, although such facts were  
9 readily available to Forescout and the Individual Defendants. In addition to the facts alleged herein  
10 demonstrating a strong inference of scienter, certain information showing that Defendants acted  
11 knowingly or with reckless disregard for the truth is peculiarly within these Defendants' knowledge  
12 and control. As the senior managers of Forescout, the Individual Defendants had knowledge of the  
13 details of Forescout's internal affairs that were inconsistent with their public statements.

14           172. As officers and directors of a publicly held company, the Individual Defendants had  
15 a duty to disseminate timely, accurate, and truthful information regarding Forescout's business,  
16 operations, and finances. As a result of the dissemination of the aforementioned false and  
17 misleading statements, the market price of Forescout common stock was artificially inflated  
18 throughout the Class Period. Additionally, as sellers of Forescout common stock during the Class  
19 Period, the Individual Defendants had a duty to disclose or refrain from trading on Forescout's  
20 artificially inflated stock price.

21           173. In ignorance of the adverse facts concerning Forescout's business, operations and  
22 finances, which were concealed by the misrepresentations and omissions alleged herein, Lead  
23 Plaintiffs and the other members of the Class purchased or otherwise acquired Forescout common  
24 stock at artificially inflated prices and relied upon the price of the common stock, the integrity of  
25 the market for the common stock or upon statements disseminated by Defendants and were damaged  
26 thereby.

27           174. During the Class Period, Forescout's common stock was traded on an active and  
28 efficient market. Lead Plaintiffs and the other members of the Class, directly relying on the

1 materially false and misleading statements described herein, or relying upon the integrity of the  
 2 market, purchased or otherwise acquired shares of Forescout at prices artificially inflated by  
 3 Defendants' wrongful conduct. Had Lead Plaintiffs and the other members of the Class known the  
 4 truth, they would not have purchased or otherwise acquired said common stock or would not have  
 5 purchased or otherwise acquired it at the inflated prices that were paid. At the time of the purchases  
 6 or acquisitions by Lead Plaintiffs and the Class, the true value of Forescout's common stock was  
 7 substantially lower than the prices paid by Lead Plaintiffs and the other members of the Class. The  
 8 market price of Forescout's common stock declined sharply upon public disclosure of the facts or  
 9 materialization of the risks alleged herein to the injury of Lead Plaintiffs and other Class members.

10 175. By reason of the conduct alleged herein, Forescout and the Individual Defendants  
 11 knowingly or recklessly violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated  
 12 thereunder.

13 176. As a direct and proximate result of these Defendants' wrongful conduct, Lead  
 14 Plaintiffs and the other Class members suffered damages in connection with their respective  
 15 purchases of the Company's common stock during the Class Period when the risk of Defendants'  
 16 wrongdoing materialized or upon the disclosure thereof, causing the price of Forescout common  
 17 stock to decline. Forescout and the Individual Defendants are liable for damages in connection with  
 18 these losses under Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder.

## 19 **COUNT II:**

### 20 **(Against Defendants DeCesare and Harms for**

### 21 **Violations of Section 20(a) of the Exchange Act)**

22 177. Lead Plaintiffs repeat and reallege the allegations contained in Paragraphs 1 to 176  
 23 above, as if fully set forth herein.

24 178. During the Class Period, DeCesare and Harms participated in the operation and  
 25 management of Forescout, and conducted and participated, directly and indirectly, in the conduct of  
 26 Forescout's business affairs. Because of their senior positions, they knew the adverse non-public  
 27 information that rendered Forescout's public statements false and misleading.  
 28

187. As officers and directors of a publicly owned company, DeCesare and Harms had a duty to disseminate accurate and truthful information with respect to Forescout's financial information and results of operations, and to correct promptly any public statements issued by Forescout, which had become materially false or misleading.

188. Because of their positions of control and authority as senior officers, DeCesare and Harms were able to, and did, control the Company's statements, which Forescout disseminated in the marketplace during the Class Period concerning Forescout's financial information and business. Throughout the Class Period, DeCesare and Harms exercised their power and authority to cause Forescout to engage in the wrongful acts complained of herein. DeCesare and Harms, therefore, were "controlling persons" of Forescout within the meaning of Section 20(a) of the Exchange Act. In this capacity, they participated in the unlawful conduct alleged which artificially inflated the market price of Forescout common stock.

189. DeCesare and Harms, therefore, acted as controlling persons of Forescout. By reason of their senior management positions and/or being directors of Forescout, DeCesare and Harms had the power to direct the actions of, and exercised the same to cause, Forescout to engage in the unlawful acts and conduct complained of herein. DeCesare and Harms exercised control over the general operations of Forescout and possessed the power to control the specific activities, which comprise the primary violations about which Lead Plaintiffs, and the other members of the Class, complain.

190. As control persons, DeCesare, and Harms are liable pursuant to Section 20(a) of the Exchange Act for the primary violations of the Exchange Act committed by Forescout.

### **PRAYER FOR RELIEF**

**WHEREFORE**, Lead Plaintiffs demand judgment against Defendants as follows:

A. Determining that the instant action may be maintained as a class action under Rule 23 of the Federal Rules of Civil Procedure, and certifying Lead Plaintiffs as the Class Representatives;

B. Requiring Defendants to pay damages sustained by the Lead Plaintiffs and the Class by reason of the acts and transactions alleged herein;

C. Awarding Lead Plaintiffs and the other members of the Class prejudgment and post-judgment interest, as well as their reasonable attorneys' fees, expert fees and other costs; and,

D. Awarding such other and further relief as this Court may deem just and proper.

**DEMAND FOR TRIAL BY JURY**

Lead Plaintiffs hereby demand a trial by jury.

Dated: May 10, 2021

**POMERANTZ LLP**

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*Co-Lead Counsel*

**CERTIFICATE OF SERVICE**

I hereby certify that on May 10, 2021, a copy of the foregoing was filed electronically via the Court's CM/ECF system. Notice of this filing will be sent by e-mail to all parties by operation of the Court's electronic filing system. Parties may access this filing through the Court's CM/ECF System.

Dated: May 10, 2021

**POMERANTZ LLP**

By: /s/Omar Jafri  
Omar Jafri

*Co-Lead Counsel*